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RESERVE REQUIREMENT EXEMPTIONS

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ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 6222

A BILL TO AMEND THE FEDERAL RESERVE ACT TO EXEMPT FROM RESERVE REQUIREMENTS A CERTAIN AMOUNT OF THE DEPOSITS AND ACCOUNTS OF DEPOSITORY INSTITUTIONS

JUNE 16, 1982

Serial No. 97-69

Printed for the use of the
Committee on Banking, Finance and Urban Affairs

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RESERVE REQUIREMENT EXEMPTIONS

WEDNESDAY, JUNE 16, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Walter E. Fauntroy (chairman of the subcommittee) presiding.

Present: Representatives Fauntroy, Barnard, Patman, Hansen, McCollum, and Weber.

Chairman FAUNTROY. The subcommittee will come to order.

This morning we meet to take testimony on H.R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits of depository institutions. As you know, the Monetary Control Act of 1980 subjected all depository institutions to reserve requirements. This proposed legislation would allow all depository institutions to exempt from this requirement any combination of $2 million in reservable liabilities. This would have the effect of exempting generally all depository institutions with total deposits of less than $5 million, thereby relieving them of the burden of maintaining reserves.

This exemption should not affect control of the financial system since the impact would be very small. I must caution, however, that any increase in the exemption amount could seriously erode control over the monetary aggregates as well as increase the annual revenue loss to the Treasury. Since the deposits of small institutions constitute such a small portion of such institutions, the Federal Reserve Board has deferred the imposition of reserve requirements on institutions with less than $2 million in total deposits by regulation. It is highly doubtful, however, that further extensions of the exemption can be justified in light of the mandate of the Monetary Control Act unless we take some kind of legislative action.

The reserve requirement has now been deferred three times. The most recent extension occurred on April 28, 1982, whereupon, the Board of Governors of the Federal Reserve System extended until December 31, 1982, the deferral for deposit reporting and reserve maintenance of nonmember depository institutions. A copy of the letter I have received from Chairman Volcker is enclosed in the materials which were provided to Members earlier. This legislation would expand upon that exemption.

In my letter to the witnesses who have agreed to testify or to submit statements for the record, I have asked that they speak to

the general policy issues surrounding this proposed codification of the exemption, and the budgetary implications this legislation is likely to have on the excess income returned to the Treasury by the Federal Reserve. I have also asked them to make any technical comments which they believe might be appropriate.

[The following material was submitted for inclusion at this point in the hearing record: The full text of Chairman Fauntroy's opening statement along with the referred-to letter of Chairman Volcker, dated April 28, 1982; the text of Chairman Fauntroy's bill, H.R. 6222; and the subcommittee hearing notice and witness list. The material follows:]

OPENING STATEMENT OF THE HONORABLE WALTER E. FAUNTROY
Chairman, Subcommittee on Domestic Monetary Policy
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
Hearings on H. R. 6222, a bill to amend the Federal
Reserve Act to exempt from reserve requirements a certain amount
of the deposits of depository institutions

\#\#\#\#\#\#\#\#\#

Wednesday, June 16, 1982 - 10:00 A. M.
2128 Rayburn House Office Building - Washington, D. C.

\#\#\#\#\#\#\#\#\#\#

The Subcommittee will come to order.

This morning we meet to take testimony on H. R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions. As you know, the Monetary Control Act of 1980 subjected all depository institutions to reserve requirements. This proposed legislation would allow all depository institutions to exempt from this requirement any combination of $2 million in reserveable liabilities. This would have the effect of exempting generally all depository institutions with total deposits of less than $5 million, thereby relieving them of the burden of maintaining reserves.

This exemption should not affect control of the financial system since the impact would be very small. I must caution, however, that any increase in the exemption amount could seriously erode control over the monetary aggregates as well as increase the annual revenue loss to the Treasury. Since the deposits of small institutions constitute such a small portion of the money supply and frequent reporting could be a substantial burden to such institutions, the Federal Reserve Board has deferred the imposition of reserve requirements on institutions with less than $2 million in total deposits by regulation. It is highly doubtful, however, that further extensions of the exemption can be justified in light of the mandate of the Monetary Control Act unless we take some kind of legislative action.

The reserve requirement has now been deferred three times. The most recent extension occurred on April 28, 1982, whereupon the Board of Governors of the Federal Reserve System extended until December 31, 1982 the deferral for deposit reporting and reserve maintenance of non-member depository institutions. A copy of the letter I have received from Chairman Volcker is enclosed in the materials which were provided to Members earlier. This legislation would expand upon that exemption.

In my letter to the witnesses who have agreed to testify or to submit statements for the record, I have asked that they speak to the general policy issues surrounding this proposed codification of the exemption, and the budgetary implications this legislation is likely to have on the excess income returned to the Treasury by the Federal Reserve. I have also asked them to make any technical comments which they believe might be appropriate.

Before we proceed to our first witness, however, I would like to recognize my friend and the distinguished Ranking Member of this Subcommittee, Mr. Hansen.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

April 28, 1982

The Honorable Walter E. Fauntroy
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Fauntroy:

I am writing to advise you that today the Board extended until December 31, 1982, the deferral for deposit reporting and reserve maintenance of nonmember depository institutions with total deposits of less than $2 million. After passage of the Monetary Control Act of 1980, the Board first deferred these requirements for small institutions until May 1981, on the basis that requiring a large number of small institutions to report and maintain reserves might interfere with orderly implementation of the Act. The deferral was then extended on two occasions, first until November 1981 and then until May 1982, in light of pending legislation to provide for a permanent exemption for small institutions.

It is the sense of the Board that it will be increasingly difficult to grant further extensions of the deferral beyond this year unless some legislative action is taken with regard to the exemption. As you know, the Board, in its legislative recommendations as part of the 1981 Annual Report to Congress, suggested either exempting depository institutions with less than $5 million in deposits from reserve requirements or exempting the first $2 million of reservable liabilities of all depository institutions.

As always, the Federal Reserve is prepared to offer any assistance that you or your staff may wish in considering this issue.

Sincerely,

Paul

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97TH CONGRESS
2D SESSION

H. R. 6222

To amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions.

IN THE HOUSE OF REPRESENTATIVES

APRIL 29, 1982

Mr. FAUNTROY introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

---

A BILL

To amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Reserve Requirements Reform Act of 1982".

SEC. 2. Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)) is amended by adding at the end thereof the following:

"(11) ADDITIONAL EXEMPTIONS.—(A)(i) Notwithstanding the reserve requirement ratios established under paragraphs (2) and (5) of this subsection, a re-

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serve ratio of zero per centum shall apply to any combination, which does not in total exceed $2,000,000 (as adjusted under subparagraph (B)), of transaction accounts, nonpersonal time deposits, and balances and assets described in paragraph (5) of each depository institution.

"(ii) Each depository institution may designate, in accordance with such rules and regulations as the Board shall prescribe, the types and amounts of such reservable liabilities to which the reserve ratio of zero per centum shall apply, except that transaction accounts which are designated to be subject to a reserve ratio of zero per centum shall be accounts that would otherwise be subject to a reserve ratio of 3 per centum under paragraph (2).

"(B)(i) Beginning in 1982, not later than December 31 of each year, the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount specified in subparagraph (A), as previously adjusted under this subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total deposits of all depository institutions.

"(ii) The increase in total deposits shall be determined by subtracting the amount of total deposits on

June 30 of the preceding calendar year from the amount of total deposits on June 30 of the calendar year involved. In the case of any such twelve-month period in which there has been a decrease in the total deposits of all depository institutions, no adjustment shall be made. A decrease in total deposits shall be determined by subtracting the amount of such deposits on June 30 of the calendar year involved from the amount of such deposits on June 30 of the previous calendar year.".

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U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS
WASHINGTON, D.C. 20515

June 14, 1982

SUBCOMMITTEE HEARING NOTICE AND WITNESS LIST

To : Members, Subcommittee on Domestic Monetary Policy
Members, Committee on Banking, Finance and Urban Affairs

From : Walter E. Fauntroy, Subcommittee Chairman

Re : H.R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions

WEDNESDAY
JUNE 16th
10:00 a.m.
2128 RAYBURN

The Subcommittee on Domestic Monetary Policy will meet on Wednesday, June 16, 1982, at 10:00 a.m. in 2128 Rayburn House Office Building to take testimony on H.R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions.

The Monetary Control Act of 1980 subjected all depository institutions that maintain transaction accounts or non-personal time deposits to reserve requirements. This amendment would allow depository institutions to exempt from this requirement any combination of $2 million in reserveable liabilities. This would have the effect of exempting generally all depository institutions with total deposits of less than $5 million, thereby relieving them of the burden of maintaining reserves and submitting reports.

The exemption would not affect control of the financial system since the impact would be very small. At present, the Federal Reserve Board has deferred the imposition of reserve requirements on these small institutions until December 31, 1982, on the basis that requiring a larger number of small institutions to report and maintain reserves might interfere with the orderly implementation of the MCA. The deferral has been extended three times pending legislation to provide for a permanent exemption for small institutions. Further extensions would be difficult to justify in light of the mandate of the MCA unless legislative action is taken.

It is the intention of the Chairman to schedule legislative action on this bill as soon after the hearing as possible. Possible witnesses include the Federal Reserve, Treasury and various trade organizations.

WITNESSES

The Honorable Preston Martin, Vice Chairman, Federal Reserve Board
H. Lee Boatwright, National Association of Mutual Savings Banks
John Hutchinson, President, National Association of Federal Credit Unions
James C. Barr, Executive Vice-President, Credit Union National Association
Lamar Brantley, Staff Vice-President, U.S. League of Savings Associations

Written statements will be submitted by the Treasury Department, American Bankers Association and Independent Bankers Association.

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Chairman FAUNTROY. Before we proceed to our first witness, however, I would like to recognize my friend and the distinguished ranking member of this subcommittee, Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman. And I commend you for introducing the Reserve Requirements Reform Act of 1982, H.R. 6222. As you know, I have pledged my support for your efforts to lift at least part of the burden which both reserve and reporting requirements impose upon this Nation's depository institutions.

Let me also welcome you, Vice Chairman Martin, in your debut to this subcommittee. This, therefore, is a red alert day for us, as I am sure it must be for you, since your appointment. We are all familiar with the vast experience and expertise in the world of finance you bring to the Board, this background and your past service as Chairman of the Federal Home Loan Bank Board will be valuable in connection with your new responsibilities in months and years ahead.

Reserve requirements, as we know, are one of the key instruments for the conduct of monetary policy. Some of us may agree or disagree about the need for such reserves in all cases or about the desirable size of the reserve requirements under the Monetary Control Act of 1980. I must point out that reserve requirements are also a form of taxation and according to my own principles any such tax should be applied fairly and equitably across the board. Your bill, Mr. Chairman, exempts the first $2 million in reservable liabilities for all depository institutions, commercial banks, mutual savings banks, savings and loan associations, and credit unions and the like, and, therefore, meets the test of equity. Since Congress in 1980 did not allow the Federal Reserve to pay on these sterile reserves for which the opportunity costs have risen steeply as rates have gone up, it seems only reasonable that we now take steps to alleviate this burden of required reserves and reporting which is particularly onerous for smaller depository institutions.

Mr. Chairman, it is my understanding from reading the available testimony last night that our legislation is supported by the Federal Reserve, by most, if not all of the trade associations appearing today, and I also understand from the staff that while the Treasury Department prefers an alternative approach it has no objection to our bill. Although there is roughly a $25 million revenue loss attached to H.R. 6222 in terms of foregone revenue to the Treasury, this figure seems reasonable in comparison to the more than $14 billion which the Federal Reserve turned over to the Treasury last year.

In closing, this $2 million exemption level is well balanced, it will help all institutions, should relieve about 24,000 depository institutions from the burdens of reserve requirements and should have little, if any, impact upon monetary control. I commend you again for your work at developing this legislation and am pleased to cosponsor such needed relief for our hard-pressed financial institutions.

I look forward to hearing this testimony this morning.

[The full text of Mr. Hansen's opening statement follows:]

Opening Statement of

HON. GEORGE HANSEN OF IDAHO

on

H.R. 6222, Reserve Requirements Reform Act Of 1982

Subcommittee on Domestic Monetary Policy

June 16,1982

Mr. Chairman, I commend you for introducing the Reserve Requirements Reform Act of 1982, H.R. 6222. As you know, I have pledged my support for your efforts to lift at least part of the burden which both reserve and reporting requirements impose upon this Nation's depository institutions.

Let me also welcome you, Vice Chairman Martin, in your debut before this subcommittee. You are President Reagan's first appointment to the Board of Governors of the Federal Reserve System and this, therefore, is a red letter day for us as I am sure it must be for you. We are all familiar with the vast experience and expertise in the world of finance which you bring to the Board. This background and your past service as Chairman of the Federal Home Loan Bank Board will be invaluable in connection with your new responsibilities in the months and years ahead.

Reserve requirements, as we know, are one of the key instruments for the conduct of monetary policy. Some of us may agree or disagree about the need for such reserves in all cases or about the desireable size of reserve requirements under the Monetary Control Act of 1980. I must point out, however, that reserve requirements are also a form of taxation and, according my own principles, any such tax should be applied fairly and equitably across the board. Your bill, Mr. Chairman, exempts the first

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$2 million in reserveable liabilities for all depository institutions -- commercial banks, mutual savings banks, savings and loan associations, and credit unions alike -- and therefore meets this test of equity. Since Congress in 1980 did not allow the Federal Reserve to pay interest on these sterile reserves (for which the opportunity costs have risen steeply as interest rates have gone up), it seems only reasonable that we now take steps to alleviate this burden of required reserves and reporting which is particularly onerous for smaller depository institutions.

Mr. Chairman, it is my understanding from reading the available testimony last night that our legislation is supported by the Federal Reserve and by most if not all of the trade associations appearing today. I also understand from staff that while the Treasury Department prefers an alternative approach, it has no objection to our bill. Although there is roughly a $25 million revenue loss attached to H.R. 6222, in terms of foregone revenue to the Treasury, this figure seems reasonable in comparison to the more than $14 billion which the Federal Reserve turned over to the Treasury last year.

In closing, Mr. Chairman, this $2 million exemption level is well balanced, it will help all institutions, it should relieve about 24,000 depository institutions from the burdens of reserve requirements, and it should have little if any impact on monetary control. I commend you again for your work in developing this legislation and am pleased to cosponsor such needed relief for our hard pressed financial institutions.

Thank you and I look forward to hearing the testimony this morning.

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Chairman FAUNTROY. And I want to thank the gentleman for his support of the processes by which we come to this hearing and are prepared to consider the bill. I want to associate myself with his remarks as well with respect to Governor Martin as he makes his maiden appearance as the Vice Chairman of the Federal Reserve Board here today.

Mr. Martin, we are delighted to have you before us and we look forward to your testimony. We have your statement and you may proceed now, in whatever manner you choose.

STATEMENT OF HON. PRESTON MARTIN, VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. MARTIN. Thank you, Mr. Chairman. I appreciate the chairman's kind remarks and those of the ranking member.

To repeat, I appreciate the chairman and the ranking member's kind remarks. It is a privilege to be here in the Wright Patman room. I recognize that Congressman Patman is here. I do have some rather fond memories of appearing in this room before then Chairman Wright Patman, Congressman.

This amendment to the Federal Reserve Act, as the chairman has noted, would exempt from reserve requirements the first $2 million of reservable liabilities of all depository institutions.

The chairman also noted that the Federal Reserve has expressed support in the past for legislation that would permanently reduce the relatively heavy burden of reserve requirements on the smallest institutions.

Let me paraphrase somewhat my statement, which you have and which you have said would be entered into the record. Granting an exemption on reservable liabilities to all depository institutions would impair the Federal Reserve's ability to control the monetary aggregates if the level of the initial exemption were higher than $2 million.

Accordingly, the Board would find this legislation acceptable so long as the exemption level were not higher than $2 million. Now let me comment on the problems in the present status of the reserve deferral by the Fed and to discuss or at least comment upon the alternative proposal contained in S. 1720.

The chairman noted that the Monetary Control Act of 1980 imposed uniform reserve requirements on all depository institutions. This, of course, moves in the direction of a similar regulatory environment for both the member and the nonmember institutions.

In 1980, the Fed was concerned that subjecting a large number of institutions all at once to new reporting and reserve requirements would cause significant operational difficulties and interfere with the orderly implementation of the MCA.

We granted a 6-month deferral of reporting and reserve requirements to certain depository institutions with total deposits of less than $2 million as of the end of 1979.

The Board did not apply the deferral of reporting and reserve requirements to Edge and Agreement Corp. or to U.S. agencies and branches of foreign banks. These institutions are part of relatively large organizations.

As the chairman noted, we subsequently extended this deferral on three occasions. I have indicated we did this initially with operational considerations in mind. Later we extended the deferral in recognition of certain legislation before the Congress which would itself permanently exempt the smallest institutions.

Our deferral or exemption expires at the end of this year and in view of the requirements of the MCA and the improving capacity of the Federal Reserve to absorb the operational requirements associated, we believe it would be inappropriate for the Board to grant further extensions indefinitely without legislative action.

As shown in tables 1 and 2 of the statement, an estimated 17,700 institutions are not now subject to reserve requirements. This consists of 300 nonmember banks, 400 savings and loans, and 17,000 credit unions. Without the present deferral that we are implementing, a sizable proportion would be forced to maintain required reserves.

Ending the deferral would substantially increase the overall administrative and operational burden of reserve requirements for these institutions and raise somewhat our operating costs. But ending the deferral would not perceptibly aid monetary control. The entire group of institutions not currently subject to reserve requirements while representing about 44 percent of all depository institutions, as shown in table 1, has less than 1 percent of total deposits.

Of course, the Board recognizes that reserve requirements on deposits are necessary for effective monetary control but I would like to emphasize that we are mindful of the reserve burden on all institutions, especially the small institution. We support the aim of the MCA that all depository institutions share the reserve burden equitably. The earnings foregone by holding noninterest bearing reserve assets, of course, are proportional to the required reserves, and, hence, would be distributed fairly across institutions of different sizes if no institutions were exempt.

It should be noted that paying interest on required reserves would equitably offset this burden. However, with no exemption, the administrative and operational costs of compliance would not be distributed equitably, since these burdens fall most heavily on the smallest institutions.

In light of their relatively heavy burden, the Board supports efforts to exempt smaller institutions permanently from reserve requirements.

The issue before us today is determining the better approach for accomplishing this goal. The Fed has in the past recommended consideration of two alternatives. One approach, exempting institutions below a certain level of total deposits was contained in legislation that I have already mentioned.

The other approach which exempts certain institutions below a certain level of reservable liabilities is embodied in H.R. 6222.

Now back to the first approach: Section 211 of S. 1720 would exempt from reserve requirements about 19,900 depository institutions that presently have less than $5 million in total deposits. And note the difference in this approach from reservable liabilities.

These institutions now account for about 1¼ percent of total deposits. The $5 million cutoff figure would increase annually on a

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formula basis. In testimony on S. 1720 last year, Chairman Volcker indicated that the Board could support such an amendment although he noted that the amendment had certain drawbacks and suggested consideration of the second approach which is contained in today's bill.

One drawback of the total deposit approach is that when an institution grows just above $5 million, it would become subject to reserve requirements on deposits above that level and, of course, on its total reservable deposits.

To use the jargon of economists, institutions just passing over the threshold confront a very high marginal reserve requirement.

That language may have not added a great deal to our deliberations here this morning.

In addition, this approach contains an inequity, now we are talking about the $5 million total deposit approach, an inequity because institutions just below the cutoff would be completely exempt from reserve requirements, while slightly larger institutions just above the cutoff would be fully subject to requirements on all of their reservable deposits.

The approach in the present bill exempts from reserve requirements the first $2 million in reservable liabilities of all institutions. The number of fully exempt institutions is a little larger than under the $5 million total deposit approach.

Since almost all institutions with $5 million or less in total deposits have no more than $2 million in reservable liabilities, the present bill would fully exempt from reserve requirements roughly 19,750 of the 19,900 institutions with less than $5 million in total deposits.

And table 1 shows that it would also exempt about 4,100 institutions with more than $5 million in total deposits, but less than $2 million in reservable liabilities.

In addition, by granting an equal reduction in reserve requirements to all institutions, big or small, on their first $2 million in reservable liabilities, this method avoids the penalty for deposit growth above the cutoff and treats institutions in the neighborhood of the threshold more equitably.

The present bill would cost the Treasury, we estimate, somewhat more in lost revenue, of course, because the exemption applies to all institutions, not just those below a certain level. With an exemption provided solely to depositories with less than $5 million in total deposits, annual revenue loss is estimated at less than $1 million initially, as shown in table 4.

By contrast, the present bill would involve an estimated loss to the Treasury of about $5 million per year, as the chairman has noted. Any exemption level above $2 million of reservable liabilities would imply, of course, still greater revenue loss.

Any higher exemption level immediately raises questions about monetary control. Because this exemption applies to all depository institutions, it lowers their required reserves. Thus, a higher exemption would increase the number of institutions able to satisfy reserve requirements with vault cash, thereby reducing required reserve deposits at the Federal Reserve. With exemption levels above $2 million, the percent of transactions deposits at institutions with reserve balances at the Federal Reserve approaches the

proportion prevailing before the Monetary Control Act passage. And during the deliberations leading to that act, the Fed noted that this coverage ratio was already low enough to begin to impair monetary control.

To repeat, the Board finds this proposed legislation acceptable, but with no higher exemption level than the contemplated $2 million in reservable liabilities.

Although the Board does not feel that providing to all institutions that level of exemption would seriously erode control over the aggregates, an exemption above this level would begin to be a cause for concern.

We note that the bill would allow the $2 million exemption to be allocated among reservable liabilities in accordance with rules and regulations established by the Board so we would allocate the exemption in a manner consistent with operational and monetary policy considerations.

The Board would not object to the provision that would index the exemption level to a measure of deposits, although it isn't clear to us that indexing is necessary to achieve the intended results.

However, since the exemption applies to reservable liabilities and not to total deposits, it would be more appropriate to index the exemption to 80 percent of the growth in reservable liabilities rather than indexing to total deposit growth.

Such treatment would be comparable to the indexing in the Monetary Control Act of the original $25 million low Reserve cutoff of transaction deposits. That cutoff is indexed to a measure of those deposits affected, to total transaction deposits at all institutions, not to total deposits.

So we have attached draft language for this proposed modification.

In conclusion, the Board fully supports efforts to avoid subjecting smaller depository institutions to undue burdens of reserve requirements. These requirements are, of course, necessary for monetary control, in general, but we must take care that their costs are not disproportionate to the advantages for control.

Thank you very much, Mr. Chairman. That concludes my statement.

Chairman FAUNTROY. I thank you. Your statement, in its entirety, will be included in the record as will all of the statements of witnesses as they come before us.

[Mr. Martin's prepared statement, on behalf of the Board of Governors of the Federal Reserve System, follows:]

Statement by

Preston Martin

Vice Chairman, Board of Governors of the Federal Reserve System

I am pleased to appear before this Committee on behalf of the Federal Reserve Board to discuss H.R. 6222. This amendment to the Federal Reserve Act would exempt from reserve requirements the first $2 million of reservable liabilities at all depository institutions. On several occasions, the Federal Reserve has expressed support for legislation that would permanently reduce the relatively heavy burden of reserve requirements on the smallest institutions. This bill accomplishes that objective, thereby fostering competitive balance among depository institutions. However, granting an exemption on reservable liabilities to all depository instututions would impair the Federal Reserve's ability to control the monetary aggregates if the level of the initial exemption were higher than $2 million. Accordingly, the Board would find this legislation acceptable so long as the exemption level were not higher than $2 million. Before discussing the specifics of this bill, I will review both the problems involved in the present reserve deferral for smaller institutions and an alternative approach for dealing with this issue.

The Depository Institutions Deregulation and Monetary Control Act of 1980 imposed uniform reserve requirements on all depository institutions, which has aided the conduct of monetary policy and moved in the direction of a more similar regulatory environment for member and nonmember institutions. However, in 1980 the Federal Reserve was concerned that subjecting a large number of institutions all at once to new reporting and reserve maintenance requirements would cause significant operational difficulties and interfere with the orderly implementation of the Act. Therefore, the Board granted a six-month deferral of reporting and reserve requirements to certain depository institutions with total deposits of less than $2 million as of December 31, 1979. This deferral could not apply to member banks, which were already subject to reserve and reporting requirements. In addition, the Board did

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not apply the deferral of reserve and reporting requirements to Edge Act and Agreement corporations or U.S. agencies and branches of foreign banks that are part of relatively large organizations.

The Board subsequently extended the deferral on three occasions, initially to minimize operational difficulties and later in light of legislation pending before Congress that would permanently exempt smaller institutions from reserve requirements. The current deferral expires on December 31 of this year. In view of the requirements of the Monetary Control Act and the improving capacity of the Federal Reserve to absorb the operational requirements associated with deferred institutions, we believe it would be inappropriate for the Board to grant further extensions indefinitely without legislative action.

As shown in Tables 1 and 2, an estimated 17,700 institutions are not now subject to reserve requirements: 300 nonmember banks, 400 savings and loans, and 17,000 credit unions. Without the present deferral, a sizable proportion would be forced to maintain required reserves. Ending the deferral would substantially increase the overall administrative and operational burden of reserve requirements for these institutions and raise somewhat the operating costs of the Federal Reserve System. But ending the deferral would not perceptibly aid monetary policy. The entire group of institutions not currently subject to reserve requirements, while representing about 44 percent of all depository institutions, has less than one percent of total deposits.

Although the Board recognizes that reserve requirements are necessary for effective monetary control, I would like to emphasize that we are mindful of the reserve burden on all institutions. The Board supports the a.m of the Monetary Control Act that all depository institutions share the reserve burden equitably. The earnings forgone by holding noninterest-bearing

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reserves are proportional to required reserves and hence would be distributed fairly across institutions of different sizes if no institutions were exempt. It should be noted that paying interest on required reserves would equitably offset this burden. However, with no exemption, the administrative and operational costs of compliance would not be distributed equitably, since these burdens fall more heavily on smaller institutions. In light of their relatively heavy burden, the Board supports efforts to exempt smaller institutions permanently from reserve requirements.

The issue before us today is determining the best approach for accomplishing this goal. The Federal Reserve has in the past recommended consideration of two alternative approaches. One approach, exempting institutions below a certain level of total deposits from reserve requirements, was contained in legislation previously introduced in the U.S. Senate. The other approach, which exempts from reserve requirements a certain level of reservable liabilities at all institutions, is embodied in the present bill, H.R. 6222.

Section 211 of the comprehensive banking bill introduced by Senator Garn, S. 1720, reflects the first approach. It would exempt from reserve requirements about 19,900 depository institutions that presently have less than $5 million in <u>total</u> deposits (note the difference from reservable liabilities). These institutions now account for about 1-1/4 percent of total deposits. The $5 million cutoff figure would increase annually by an amount equal to 80 percent of the percentage increase in total deposits at all institutions. In testimony on S. 1720 on October 29, 1981, Chairman Volcker indicated that the Board could support such an amendment, although he noted that the amendment had certain drawbacks and suggested consideration of the second approach contained in the bill under discussion today.

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One drawback of the total deposit approach is that when an institution grows above $5 million, it would become subject to reserve requirements not only on deposits above that level but also on its total reservable deposits. To use the jargon of economists, institutions just passing over the threshold confront a very high marginal reserve requirement. In addition, this system contains an inequity because institutions just below the cutoff would be completely exempt from reserve requirements, while slightly larger institutions just above the cutoff would be fully subject to requirements on all their reservable deposits.

The approach in the present bill exempts from reserve requirements the first $2 million in reservable liabilities of all institutions. The number of fully exempt institutions is somewhat larger under this approach than under the total deposit method. Since almost all institutions with $5 million or less in total deposits have no more than $2 million in reservable liabilities, the present bill would fully exempt from reserve requirements roughly 19,750 of the 19,900 institutions with less than $5 million in total deposits. As indicated in Table 1, it would also exempt about 4,100 institutions with more than $5 million in total deposits but less than $2 million in reservable liabilities. In addition, by granting an equal reduction in reserve requirements to all institutions on their first $2 million in reservable liabilities, this method avoids the penalty for deposit growth above the cutoff and treats institutions in the neighborhood of the threshold more equitably.

The present bill would cost the Treasury somewhat more in lost revenue because the exemption applies to all institutions rather than just to those below a certain level of total deposits. With an exemption provided solely to depositories with less than $5 million in total deposits, the

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estimated annual revenue loss to the Treasury would be less than $1 million initially, as shown in Table 4. By contrast, the present bill would involve an estimated loss to the Treasury of about $25 million per year. Any exemption level above $2 million of reservable liabilities would imply still greater revenue loss.

Any higher exemption level immediately raises questions about monetary control as well as revenue loss. Because this exemption applies to all depository institutions, it lowers required reserves at all institutions. In consequence, a higher exemption would increase the number of institutions able to satisfy reserve requirements with vault cash held in the course of everyday business. With exemption levels above $2 million, the percent of transactions deposits at institutions with reserve balances at the Federal Reserve approaches the fraction prevailing before the Monetary Control Act. During deliberations prior to passage of this Act, the Federal Reserve noted that this coverage ratio was already low enough to begin to impair monetary control. The Board finds the proposed legislation acceptable, but with no higher an exemption level than the contemplated $2 million in reservable liabilities. Although the Board does not feel that providing to all institutions an exemption of only $2 million in reservable liabilities would seriously erode control over the aggregates, an exemption above this level would begin to be a cause for concern. We note that the bill would allow the $2 million exemption to be allocated among reservable liabilities in accordance with rules and regulations established by the Board. Under this provision, the Board would allocate the exemption among reservable liabilities in a manner consistent with operational and monetary policy considerations.

The Board would not object to the provision that would index the exemption level to a measure of deposits, although it is not clear to us that it is necessary to achieve the intended results. However, since the

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exemption applies to reservable liabilities, it would be more appropriate to index the exemption to 80 percent of the growth in reservable liabilities rather than in total deposits. Such treatment would be more comparable to the indexing in the Monetary Control Act of the original $25 million cutoff of transactions deposits between the 3 percent and 12 percent reserve ratios. This cutoff is indexed to a measure of those deposits affected by this provision; that is, to total transactions deposits at all institutions. Draft language for this proposed modification is attached.

In conclusion, the Board fully supports efforts to avoid subjecting smaller depository institutions to undue burdens of reserve requirements. While requirements are necessary for monetary control, we must take care that their costs are not so high as to swamp their intended benefits. Since it would be inappropriate for the Board to continue indefinitely the current deferral of reserve requirements under its own authority, we believe that a resolution of this issue by Congress is necessary to prevent a substantial increase in the reserve burden on smaller depository institutions.

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Table 1

Institutions Fully Exempt from Reserve Requirements
Under Alternative Methods[1]

Alternatives		All Depository Institutions[2]		
		Number of exempt institutions	Percent of all institutions	
Current[3]		17,755	44.0	Number of exempt institutions less than $5 million in total deposits
	Exempt levels of reservable liabilities			
Reserve exemption on first $ X million of reservable liabilities for all institutions[4]	$1 mill.	21,766	53.9	19,321
	2	23,831	59.0	19,745
	3	25,716	63.7	19,858
	4	27,321	67.6	19,879
	5	28,658	71.0	19,882
	Total deposit levels for reserve exemption			
Reserve exemption for institutions with less than $ X million in total deposits[4]	$ 2 mill.	17,992	44.6	
	5	19,882	49.2	
	7.5	21,444	53.1	
	10	22,935	56.8	

1. Edge and Agreement Corporations and U.S. branches and agencies of foreign banks are excluded for the following reasons: (1) no Edge or Agreement Corporations or U.S. branches and agencies of foreign banks are currently exempt; (2) these institutions often have related offices located in different states or different Federal Reserve Districts which all report deposits separately. Each "family" of related offices would allocate a reserve exemption on reservable liabilities among its various offices. Since the impact of such an allocation cannot be known in advance, no estimate is included of the number of reporting offices that would be exempt from reserve requirements under these alternatives; (3) since these institutions are affiliates of much larger organizations, the Federal Reserve believes that a reserve exemption based on their total deposit size would be inappropriate.
2. There are an estimated 40,388 depository institutions at present.
3. Includes all institutions not now subject to reserve requirements. Such institutions either are deferred from reserve and reporting requirements because they had less than $2 million in total deposits on December 31, 1979, or were above $2 million in total deposits on December 31, 1979 and have no reservable liabilities (about 10 percent of the total). An unknown number of the former group likely have no reservable liabilities and thus would be exempt from reserve requirements if the deferral ended.
4. Estimated at current deposit levels.

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Table 2

Number of Institutions Fully Exempt from Reserve Requirements
Under Alternative Methods: By Type of Institution[1]

Alternatives		Commercial Banks	Savings and Loans	Mutual Savings Banks	Credit Unions	Total number of exempt institutions[2]
Current[3]		307	415	0	17,033	17,755
	Exempt levels of reservable liabilities					
Reserve exemption on first $ X million of reservable liabilities for all institutions[4]	$1 mill.	507	1,546	13	19,700	21,766
	2	1,526	2,271	46	19,988	23,831
	3	2,782	2,709	99	20,126	25,716
	4	3,960	3,000	147	20,214	27,321
	5	5,018	3,187	183	20,270	28,658
	Total deposit levels for reserve exemption					
Reserve exemption for institutions with less than $ X million in total deposits[4]	$ 2 mill.	354	435	0	17,203	17,992
	5	976	525	0	18,381	19,882
	7.5	1,868	641	2	18,933	21,444
	10	2,868	764	4	19,299	22,935

1. Edge and Agreement Corporations and U.S. branches and agencies of foreign banks are excluded for the following reasons: (1) no Edge or Agreement Corporations or U.S. branches and agencies of foreign banks are currently exempt; (2) these institutions often have related offices located in different states or different Federal Reserve Districts which all report deposits separately. Each "family" of related offices would allocate a reserve exemption on reservable liabilities among its various offices. Since the impact of such an allocation cannot be known in advance, no estimate is included of the number of reporting offices that would be exempt from reserve requirements under these alternatives; (3) since these institutions are affiliates of much larger organizations, the Federal Reserve believes that a reserve exemption based on their total deposit size would be inappropriate.
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4. Estimated at current deposit levels.

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Table 3

Percent of Institutions Fully Exempt from Reserve Requirements
Under Alternative Methods: By Type of Institution[1]

Alternatives		Percent of Commercial Banks	Percent of Savings and Loans	Percent of Mutual Savings Banks	Percent of Credit Unions	Percent of all institutions[2]
Current[3]		2.1	9.8	0.0	82.9	44.0
	Exempt levels of reservable liabilities					
Reserve exemption on first $ X million of reservable liabilities for all institutions[4]	$1 mill.	3.5	36.3	3.0	95.9	53.9
	2	10.4	53.4	10.5	97.3	59.0
	3	19.0	63.7	22.6	98.0	63.7
	4	27.0	70.5	33.6	98.4	67.6
	5	34.2	41.8	41.8	98.7	71.0
	Total deposit levels for reserve exemption					
Reserve exemption for institutions with less than $ X million in total deposits[4]	$ 2 mill.	2.4	10.2	0.0	83.7	44.6
	5	6.7	12.3	0.0	89.5	49.2
	7.5	12.7	15.1	0.5	92.1	53.1
	10	19.6	18.0	0.9	93.9	56.8

1. Edge and Agreement Corporations and U.S. branches and agencies of foreign banks are excluded for the following reasons: (1) no Edge or Agreement Corporations or U.S. branches and agencies of foreign banks are currently exempt; (2) these institutions often have related offices located in different states or different Federal Reserve Districts which all report deposits separately. Each "family" of related offices would allocate a reserve exemption on reservable liabilities among its various offices. Since the impact of such an allocation cannot be known in advance, no estimate is included of the number of reporting offices that would be exempt from reserve requirements under these alternatives; (3) since these institutions are affiliates of much larger organizations, the Federal Reserve believes that a reserve exemption based on their total deposit size would be inappropriate.
2. There are an estimated 40,388 depository institutions at present.
3. Includes all institutions not now subject to reserve requirements. Such institutions either are deferred from reserve and reporting requirements because they had less than $2 million in total deposits on December 31, 1979, or were above $2 million in total deposits on December 31, 1979 and have no reservable liabilities (about 10 percent of the total). An unknown number of the former group likely have no reservable liabilities and thus would be exempt from reserve requirements if the deferral ended.
4. Estimated at current deposit levels.

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Table 4

Reduction in Reserve Balances
at the Federal Reserve and
Estimated Treasury Revenue Loss[1]
(in millions of dollars)

Alternatives		Estimates Based On Current Deposits and Current Reserve Requirements (May 1982)		Estimates Based On Estimated Growth in Deposits and Reserve Requirements After Phase-in (May 1988)	
		Reduction in reserve balances	Net Treasury revenue loss	Reduction in reserve balances	Net Treasury revenue loss
	Exempt levels of reservable liabilities				
Reserve exemption on first $ X million of reservable liabilities for all institutions	$1 mill.	158	13	457	38
	2	290	24	806	66
	3	410	34	1,085	90
	4	528	44	1,323	109
	5	640	53	1,530	126
	Total deposit levels for reserve exemption				
Reserve exemption for institutions with less than $ X million in total deposits	$ 2 mill.	1/4	*	13	1-1/2
	5	5	1/2	32	3
	7.5	15	1-1/4	52	4
	10	34	3	93	6-1/2

* less than .1

1. Estimated net Treasury revenue loss equals the loss of earnings at the Federal Reserve due to the reduction in reserve balances less the estimated taxes paid by the depository institutions affected on the earnings resulting from the reduction in reserve balances.

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Appendix to the

Statement by

Preston Martin

Vice Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

U.S. House of Representatives

June 16, 1982

Proposed Amendment to H.R. 6222

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Amendment to H.R. 6222

On page 2, line 22, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 2, line 24, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 2, line 25, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 3, line 2, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 3, line 5, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 3, line 6, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 3, line 7, strike out the word "deposits" and insert in its place "reservable liabilities".

On page 3, line 9, strike out the word "deposits" and insert in its place "reservable liabilities".

Purpose: This amendment modifies the basis of indexing the amount of deposits and Eurocurrency liabilities that may be exempted from reserve requirements from the change in total deposits in the banking system from year to year to the change in total reservable liabilities in the banking system from year to year. Reservable liabilities include transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities. This amendment will relate more closely the size of the change in the reserve requirement exemption with the change in liabilities that are subject to reserve requirements.

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Chairman FAUNTROY. Mr. Martin, it has been suggested that Federal reporting requirements should be adjusted as well. One of the witnesses to follow, his testimony suggested that the $2 million exemption apply to reporting as well. What would happen if institutions with less than $2 million of transaction accounts did not report? What would you think if they report only once a year, say?

Mr. MARTIN. Well, Mr. Chairman, we recognize that reporting is a burden for some institutions that is more onerous than the reserve requirement burden. We feel that from time to time it is necessary for us to rethink the reporting that we need in order to implement monetary policy. But we certainly are not permanently committed to any period for reporting. This need changes from time to time.

So the reporting certainly can be adjusted with an eye to the burden.

Chairman FAUNTROY. I see. You have been fairly explicit in your comments about the need not to exceed the $2 million reservable liability limit. I wonder if you would tell us the reason you selected that particular cutoff point for the purpose of monetary control?

Mr. MARTIN. We looked, first of all, Mr. Chairman, at the situation prior to the Monetary Control Act of 1980 to see the cooperation we had and the proportion of M1 deposits held by institutions with required reserve balances at the Fed.

We are very cognizant of that proportion in terms of the implementation of monetary policy. We couldn't support an exemption higher than that because we began to—we feel—cross the margin wherein monetary policy implementation could be affected. That is our concern.

Chairman FAUNTROY. In your testimony you also made reference to the fact that a number of individuals believe that the bill should be amended to set the level of exemption at $5 million. Since this bill would effectively exempt all institutions whose assets are less than $5 million, would it be correct for me to believe that those who have an interest in the $5 million exemption are seeking exemptions for institutions up to $10 million or are we talking about institutions with only $5 million in assets? Are they talking about size of institutions or amount of reservable liabilities ?

Mr. MARTIN. I think there is a great push to attain the widest possible exemption measured in these at least two or three ways, assets, total deposits, reservable liabilities.

Our focus has been on total deposits, in part because that was the proposal in the S. 1720 and we are comfortable with either approach.

Without expressing a strong preference in either direction, if you get us to $10 million in assets, I have to admit to the chairman that I don't have the kinds of analysis of that that would enable me to take a position on a third—if you will, a third approach, based on assets.

Chairman FAUNTROY. Has the Board done any studies to estimate the costs of complying with the Federal Reserve reporting requirement for small financial institutions?

Mr. MARTIN. Gentlemen, we have made—I guess my answer is yes and no. We have made some investigation of the reserve requirement burden and find that to be a rather modest burden but

it is easy to sit on Constitution Avenue between 20th and 21st Street and indicate how easy that burden is for a small institution. Whereas, out in a given community an institution struggling to survive may find a cost of $4,000 or $5,000 a year of lost revenue, because you have a noninterest bearing deposit at your Fed that you didn't have before, can be material.

So we are not cavalier about a cost although it is not a large money amount. And it is every year.

Chairman FAUNTROY. When the Fed voted earlier this year to extend the exemption to the end of the year, was the vote unanimous?

Mr. MARTIN. Yes, it was.

Chairman FAUNTROY. Are you aware of any conversation leading up to the vote that may be instructive to us?

Mr. MARTIN. I only have recollection of those matters and the discussion that we subsequently issued in a press release, this was an open Federal Reserve Board meeting.

And if not already submitted, we will be glad to submit those comments for the record, sir.

[Vice Chairman Martin subsequently submitted the following information:]

The Board considered the extension of the current deferral of reserve requirements at an open meeting on April 28, 1982. A staff memorandum summarizing the issues and recommending an extension was presented to the Board at that time. After a brief discussion, the Board adopted the staff's recommendation to continue the deferral of reporting and reserve requirements through December 31, 1982, except for those institutions that had grown to over $15 million in total deposits by December 31, 1981. In addition to the summary discussion in the staff memorandum, the Board also elected to send to Congress letters urging enactment of legislation that would permanently exempt small depository institutions from reserve maintenance requirements.

A copy of the staff memorandum (To: Board of Governors, From: S. H. Axilrod, Subject: Continued Deferral of Reserve Requirements for Small Depository Institutions, Date: April 23, 1982) and a copy of the press release summarizing the Board discussion are attached.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 23, 1982

To Board of Governors

From S. M. Axilrod

Subject: Continued Deferral of Reserve Requirements for Small Depository Institutions.

The attached memorandum from the reserve requirement policy group discusses extension of the deferral of reporting and reserve requirements in light of pending legislation and other issues.

Attachment

April 23, 1982

To: Board of Governors

Subject: Continued Deferral of Reserve Requirements for Small Depository Institutions

From: Reserve Requirement Policy Group
(Messrs. Simpson, Pilecki, and Ballen)

ACTION REQUESTED: Board consideration of an extension of the deferral of deposit reporting and reserve maintenance requirements of Regulation D by nonmember depository institutions with less than $2 million in total deposits as of December 31, 1979. Such institutions have been deferred from these requirements since the implementation of the Monetary Control Act in October 1980. The staff recommends that such institutions be given an additional deferral until December 31, 1982, in light of pending legislation that would exempt small depository institutions from reserve requirements.

DISCUSSION: The Monetary Control Act of 1980 (Title I of Pub. L. 96-221) ("Act") imposes reserve requirements on transaction accounts and nonpersonal time deposits of all depository institutions, regardless of size. However, in adopting revised Regulation D--Reserve Requirements of Depository Institutions--to implement the Act, the Board deferred for six months, until May 1981, reserve and deposit reporting requirements of nonmember institutions that had less than $2 million in total deposits as of December 31, 1979.[1/] The deferral was granted on the basis that immediately requiring such institutions to submit reports and maintain

1/ The deferral is not applicable to member banks, Edge or Agreement Corporations, or U.S. agencies and branches of foreign banks. In addition, the Board established a procedure of quarterly reporting and reserve maintenance for depository institutions with total deposits of less than $15 million.

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reserves might have caused significant operational difficulties for the System and would thus have interfered with the orderly implementation of the Act. For operational reasons, reserve requirements on such institutions were deferred for another six month period until November 1981. When this matter was considered by the Board in October 1981, the Board extended the deferral until May 1982 to lessen the burden for smaller institutions and Reserve Banks and because of pending legislation that would have exempted smaller institutions from reserve requirements. Since the current six month deferral terminates in May, the Board is requested to determine whether the deferral should be extended or whether such institutions should commence reporting and maintaining reserves at that time.

There are an estimated 17,460 institutions currently deferred from deposit reporting and reserve requirements--290 nonmember banks, 215 savings and loans and 16,955 credit unions.[2/] Although these institutions represent about 42 per cent of all depositories, they have only four-tenths of one per cent of total deposits (about $9 billion, believed to be predominantly small time and savings deposits). Since these institutions are unlikely to have significant amounts of reservable deposits and account for such a small proportion of total deposits, continuing to exempt them from reporting and reserve requirements should not create difficulties in measuring or controlling the monetary aggregates. On the other hand, if the deferral were ended, there would be a substantial

2/ An estimated 1,100 additional institutions are exempt from deposit reporting because they have no reservable liabilities.

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increase in the overall reporting burden and a resulting increase in System operating costs.

In order to reduce the potential burden, the Board has indicated its desire to permanently exempt smaller institutions from reserve maintenance requirements. However, for the deferral to become a permanent exemption, an amendment to the Act is required.

In this regard, two bills currently are pending before Congress which would exempt very small depository institutions from reserve maintenance requirements permanently. Section 211 of the comprehensive banking bill introduced by Senator Garn, S. 1720, would permanently exempt from reserve requirements depository institutions that have less than $5 million in deposits as of the close of the most recent full fiscal year. The $5 million deposit cut-off figure would increase annually at a rate equal to 80 per cent of the percentage increase in the total deposits of all depository institutions.3/ In addition, Congressman Daschle is planning to introduce a bill that would allow all depository institutions to exempt from reserve requirements the first $2 million in reservable liabilities. Like the Garn bill, the dollar amount of the exemption is to increase by 80 per cent of the growth in total deposits of all depository institutions.

3/ As part of his testimony on S. 1720 (the Garn Bill) on October 29, 1981, Chairman Volcker indicated the Board's support for an amendment to exempt institutions with deposits of under $5 million from reserve requirements. The Board also suggested that, as an alternative, Congress consider exempting the first $2 million of reservable deposits of all institutions.

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The Legal Division advises that the Board may continue the current deferral of reserve requirements for an additional limited period of time in view of pending legislation that would make permanent the exemption from reserve requirements even though Reserve Banks have had time to adjust to the changes resulting from the Monetary Control Act of 1980. Ending the deferral, however, might be unnecessarily disruptive for both the Reserve Banks and the institutions affected to require deposit reporting and reserve maintenance for the previously deferred institutions, if legislation is enacted which exempts these institutions from reserve requirements. Accordingly, the staff recommends that the deferral for small institutions be continued until December 31, 1982. An extension of the deferral until that time would run approximately to the end of the second session of the 97th Congress, by which time Congress will have had an opportunity to act upon the legislative initiatives to make permanent the exemption for small depository institutions.

The Board also may wish to consider changing the cut-off date for deferred institutions and whether to continue to defer institutions that have grown to $15 million or more in total deposits since December 31, 1980.

Date on Which Cut-Off Is Based. At present, the cut-off level is determined by total deposits as of December 31, 1979. Staff does not believe that this date should be changed since doing so could impose an unnecessary burden on institutions that would be exempted from pending

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legislation. Accordingly, staff recommends that the cut-off level be determined by total deposits as of December 31, 1979, except as provided below.

Status of Depository Institutions That Have Grown Above $15 Million. In connection with an earlier extension of the deferral, the Board required previously deferred depository institutions with $15 million or more of total deposits as of December 31, 1980, to commence reporting deposits and maintaining reserves. Similarly, the Board may wish to require currently deferred depository institutions that have grown to have total deposits of $15 million or more to commence reporting deposits and maintaining reserves.[4/] The staff believes that the deferral from deposit reporting and reserve maintenance is not appropriate for depository institutions that have $15 million or more in total deposits since such institutions would not be exempted by the pending legislation. Accordingly, the staff recommends that institutions that are currently deferred but which have deposits of $15 million or more as of December 31, 1981, be required to begin reporting deposits for the computation period May 20 through May 26. Those institutions that report total deposits of $15 million or more during that week would continue to report deposits and maintain reserves on a weekly basis. The first reserve maintenance period would begin June 3. Institutions that report less than $15 million in total deposits during that week will report deposits and maintain reserves on a quarterly basis. The staff also recommends that institutions

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4/ There are at least 20 currently deferred nonmember depository institutions that have more than $15 million in total deposits as of December 31, 1981--19 nonmember banks and 1 savings and loan association. Staff has not yet obtained the December 31, 1981 Condition Reports for credit unions and, thus, is unable to determine the number of currently deferred credit unions that have more than $15 million in total deposits as of December 31, 1981.

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that grow to $15 million or more in total deposits after December 31, 1981, commence reporting deposits and maintaining reserves on a quarterly basis. Any institution that, after December 31, 1981, has more than $15 million in total deposits would submit its first report of deposits for the first reserve computation period after growing over $15 million. Those institutions that grew over $15 million in total deposits between December 31, 1981, and April 14, 1982, would begin reporting deposits for the reserve computation period May 20 and May 26. All quarterly reporters become weekly reporters upon reporting total deposits of $15 million or more for two consecutive calendar quarters.

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FEDERAL RESERVE press release

For immediate release April 28, 1982

The Federal Reserve Board today extended through the end of 1982 the deferral of deposit reporting and reserve requirements for nonmember depository institutions that had less than $2 million in total deposits on December 31, 1979.

The Board acted to avoid burdening very small nonmember banks, and thrift institutions, with reporting and reserve maintenance requirements and in view of pending legislation that would give small depository institutions a permanent exemption.

The Board had previously deferred the requirements of Regulation D (Reserve Requirements of Depository Institutions) for such small depositories through May of this year.

The deferral affects over 17,000 depository institutions. Although this is 42 percent of all depository institutions, they hold only four-tenths of one percent of all deposits.

The Board said it would send letters to Congress urging enactment of legislation to permit permanent exemption of small depositories from the requirements of Regulation D.

At the same time, the Board required currently deferred depositories that had deposits of $15 million or more on December 31, 1981 to begin reporting their deposits beginning with the reserve computation period of May 20 through May 26. These institutions will be notified by their District Reserve Bank of their reserve responsibilities. Other institutions with deposits of $15 million or more are required to contact their District Reserve Bank to determine when they are required to report and maintain reserves.

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Chairman FAUNTROY. In the figures which are attached to your testimony, I would like to know how you have incorporated into your figures on loss of revenues, the impact on vault cash. Are you assuming that the institutions maintain no vault cash or are your loss income figures based on income loss at the margin, after accommodating vault cash?

Mr. MARTIN. The latter. We are looking at vault cash as a necessary holding of assets for day-to-day operations of institutions, large or small, and we are aware, of course, that the small institution depends on his carrying of vault cash to satisfy his reserve requirements.

Therefore, the burden which I referred to in my previous answer has to do with a small institution finding it necessary to hold a deposit with a Fed bank, not for clearing purposes, but for reserve purposes, over and above the vault cash.

So that is why it is indeed a burden at the margin.

Chairman FAUNTROY. Mr. McCollum.

Mr. MCCOLLUM. Thank you, Mr. Chairman.

The Fauntroy approach in H.R. 6222 to the problem of small bank reserves and reporting requirements presented special administrative difficulties as you see it, limited as it is to transaction accounts, nonpersonal time deposits and certain other balances. Would compliance not be more straightforward if the approach of the Garn bill were followed, instead?

Mr. MARTIN. We do not anticipate any administrational problem with the approach in H.R. 6222 and we likewise feel comfortable with the Senate approach.

Mr. MCCOLLUM. The Federal Reserve has endorsed two alternative approaches to the problem of small bank reserve reporting requirements. One, exempts for certain depository institutions identified by size of total deposits, is the approach incorporated in the Garn bill and the other, exempts the first so many million of reservable accounts of all depository institutions, is the approach in the Fauntroy bill.

On balance, the Federal Reserve appears to favor the latter approach, based upon consideration of equity, cited by your statement in this particular case.

Do you see the other reasons for leaning more toward the Fauntroy approach over the Garn approach?

Are there any methods for getting around the equity or threshold problem?

Mr. MARTIN. I don't think the equity or threshold problem is as severe with the Fauntroy approach as it is with the approach in S. 1720.

I do not, however, from my many years in the private sector, underestimate the ingenuity of a bank president complying with either approach.

I think we will find that they will adjust whichever way the Congress seeks to go.

Mr. MCCOLLUM. Thank you, I yield back the balance of my time.

Chairman FAUNTROY. The gentleman from Texas, Mr. Patman.

Mr. PATMAN. Thank you.

I appreciate your kind remarks about my father. I have fewer questions than he would have, probably.

I would like to ask you about the bill we have before us. Had the Monetary Control Act of 1980 not passed, would there be this concern?

Would there be a need for this bill?

Mr. MARTIN. Yes, sir, because we would still face the question of the small commercial bank, even the small member commercial bank.

Mr. PATMAN. Prior to the passage of that act, were you imposing reserve requirements upon credit unions, for example?

Mr. MARTIN. No, sir.

Mr. PATMAN. Savings and loans?

Mr. MARTIN. Only member banks.

Mr. PATMAN. How many were there or are there now that will be exempt from this reserve requirement, if this act passes?

In other words, out of that 19,750, how many member banks would be exempted?

Mr. MARTIN. Table 2 shows the exemption at the first $2 million of reservable liabilities. Those institutions that would be fully exempt from Federal Reserve, depository reserve requirements. And in terms of the commercial banks, here we are talking about 1,526, 2,271 savings and loan associations, 46 mutual savings banks, and for credit unions, 19,988.

Mr. PATMAN. Maybe it is not necessary but, for the record, how many of those commercial banks would be subject to the requirements, absent the passage of the Monetary Control Act of 1980?

Mr. MARTIN. I will have to submit that for the record, Congressman. I don't have that in this mass of statistics I brought.

The congressman is very adroit. You caught me here, I have a gap here.

Mr. PATMAN. I am sorry. Perhaps you can just fill us in on that later on.

[Vice Chairman Martin subsequently submitted the following information:]

The accompanying table gives similar information for commercial banks as in table 2 in the testimony, but for member and nonmember commercial banks separately. As the table indicates, H.R. 6222 would fully exempt from reserve requirements about 225 member banks.

Table

Commercial Banks Fully Exempt
From Reserve Requirements Under
Alternative Methods

Alternatives		Number of Member Banks	Percent of Member Banks	Number of Nonmember Banks	Percent of Nonmember Banks
Current[3]		0	0	307	3.3
	Exempt levels of reservable liabilities				
Reserve exemption on first $ X million of reservable liabilities for all institutions[4]	$1 mill.	46	0.8	461	5.0
	2	224	4.1	1,302	14.2
	3	504	9.2	2,278	24.8
	4	821	14.9	3,139	34.2
	5	1,170	21.3	3,848	42.0
	Total deposit levels for reserve exemption				
Reserve exemption for institutions with less than $ X million in total deposits[4]	$ 2 mill.	34	0.6	320	3.5
	5	179	3.3	797	8.7
	7.5	355	6.5	1,513	16.5
	10	585	10.6	2,283	24.9

1. Includes all nonmember banks and all banks that are not eligible for federal deposit insurance.

2. Includes all institutions not now subject to reserve requirements. This group (all of which are nonmembers or are noninsured banks) consists predominantly of those institutions currently deferred from reserve and reporting requirements because they had less than $2 million in total deposits on December 31, 1979. A small number of institutions are exempt from reserve requirements under the Monetary Control Act of 1980 because they are not eligible for federal deposit insurance.

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Mr. PATMAN. You described a loss to the Treasury in revenue. Can you describe the mechanism by which that occurs for the committee?

The loss of revenues by waiving these reserve requirements?

Mr. MARTIN. The loss to the Treasury has to do with the diminution in the amount of funds that the Federal Reserve returns to the Treasury each year, that amounted to something like $14 billion last year, if we have a reduced volume of deposits held by us on the liability side of our balance sheet, we have a reduced level of securities held by us in the asset side of our balance sheet.

We have a lower amount of revenues. Our costs do not diminish that much under those circumstances, indeed, would increase for certain internal operating necessities.

Therefore, the Treasury would get less back from us at the end of the year.

Mr. PATMAN. That $14 billion, what is the percentage that represents, compared to the total amount received at any time?

Mr. MARTIN. Let's see if we have that?

Approximately 90 percent of the revenues go back to the Treasury in the form of that annual give-back, if you will.

Mr. PATMAN. You mentioned the necessity for having reserve deposits for monetary control.

Mr. MARTIN. Yes, sir.

Mr. PATMAN. Do you feel like you have sufficient control over the currencies that are brought into the United States from foreign countries for investment here, do you feel you have any control over those sources of credit in dollars, in order to effectuate a proper program of monetary control?

Mr. MARTIN. I would say the Eurodollar market is so huge, the Euro-currency market is so enormous and located outside of our—we have no ability to deal with foreign banks in their activities in the Euro-currency market of various kinds, nor have we, as I understand it, sought that power directly.

Mr. PATMAN. Does that handicap you on controlling the Monetary Act?

Mr. MARTIN. I believe that any substantial exogenous flow of funds like that complicates the implementation of monetary policy, yes, sir.

Mr. PATMAN. You nevertheless have a good grip on it?

Mr. MARTIN. I believe we have a good grip on it despite that impairment, yes, sir.

Mr. PATMAN. Are there additional powers you need in order to exercise controls over those sources of credit and money?

Mr. MARTIN. I strongly believe that we need power to set reserve requirements on transactions accounts at money market mutual funds, which is a good deal more of a concern that we have than over the flows of foreign deposits.

Mr. PATMAN. That would be for the purpose of controlling the monetary aggregates rather than providing safety to the depositors, is that correct?

Mr. MARTIN. Yes, sir. The reserves would serve to—after all, the essential money market mutual funds are included in M2, and M2, as the gentleman knows, is a very important aggregate in

the implementation of monetary policy, yet they are not subject to reserve policies.

Mr. PATMAN. As I heard testimony here before, we are getting away from the idea of reserve requirements serving as a basis of security for the depositors, is that true?

Is there less emphasis on that?

Mr. MARTIN. I think there is less emphasis on that than on the role of monetary policy implementation, yes, sir. But there is not a rejection of that aspect.

Mr. PATMAN. I am thinking about the individual depositor in an individual bank, we all know that various banks have weaker situations than others.

So from the standpoint of an individual depositor, are the reserve requirements of the Federal Reserve important to his security?

Mr. MARTIN. They are important, but they are less important than the impact, if you will, of a Federal Reserve president of a Federal Reserve bank in his dealing with a member institution management and less important than the FDIC and the examiner teams, State, Federal, their impact on management.

Mr. PATMAN. All of these reserve requirements we are talking about today, exempting reserve requirements that are not needed for monetary control and are not needed for the security of the depositor?

Mr. MARTIN. Those presently deferred institutions that make up 1 percent of the deposit base, no, sir. Of course, in a perfect world in which there were no costs to those little institutions, we would rather have reserve requirements on them.

But it is not a perfect world.

Mr. PATMAN. But you don't want the reserve requirements because of your desire to insure the safety of the depositors. You want them for monetary control, is that true?

Mr. MARTIN. Yes, sir.

Chairman FAUNTROY. I thank the gentleman.

Mr. Weber.

Mr. WEBER. I have just a few brief questions, Mr. Chairman.

In looking at table 1, if we adopt Chairman Fauntroy's bill at the $2 million level of exemption, there would be 23,831 exempt institutions which would be 59 percent of all institutions.

Looking over at table 4, those exempt institutions would result in the reduction in reserve balances at the Fed of $290 million, if I read that table correctly.

What is the remaining percentage of total reservable deposits that would be subject to reserve requirements?

Mr. MARTIN. For all classes?

Mr. WEBER. What I am asking is what percentage is this $290 million of all reservable requirements?

Mr. MARTIN. The total amount of required reserves, including those for U.S. branches and agencies of foreign banks as of May 1982 was $39,651,000,000. So this would be a minuscule proportion of those total required reserves. Very, very small.

Mr. WEBER. Less than 1 percent?

Mr. MARTIN. Yes; much less than 1 percent.

Mr. WEBER. I think that is important because it does—it demonstrates that the effect on your ability to control money aggregates is minuscule, if we adopt the chairman's bill.

Mr. MARTIN. Yes, sir, that is a correct interpretation in my view.

Mr. WEBER. If we adopt the chairman's bill, do you foresee any effect on the money supply or the money aggregates?

Mr. MARTIN. No; no measurable effect.

Mr. WEBER. I don't have any further questions.

Mr. FAUNTROY. Thank you.

The gentleman from Georgia, Mr. Barnard.

Mr. BARNARD. Welcome to the panel this morning and congratulations on your appointment to the Federal Reserve Board.

With your background, I am sure you will serve well and we welcome you this morning.

Since the Monetary Control Act passed in 1980, has there been any increase in membership of the Fed?

Mr. MARTIN. We will supply that, Mr. Barnard. There certainly has been a cessation of the outmigration from membership.

Mr. BARNARD. But, you have not noticed any wholesale lineup to join the Fed because of the——

Mr. MARTIN. No, sir, we have not noticed any, but I am really off base with this and I really must submit data to you.

[Vice Chairman Martin subsequently submitted the following information:]

Since the passage of the Monetary Control Act in March 1980, approximately 50 existing banks have converted to member status while 35 member banks converted to nonmembers, for a net increase of 14 members. During the 5-year period prior to the MCA, the net conversion of existing banks averaged a loss of member banks of about 55 per year. Of 413 new banks that have opened since March, 1980, 243 elected member status while 170 became nonmembers. The percentage of new members as a proportion of all de novo banks during the period is almost 60 percent. This compares to an average ratio of member de novos to total de novo banks of about 40 percent during the 5 years preceding the MCA.

Mr. BARNARD. Mr. Martin, of course the subject of the place of reserves in controlling monetary policy continues to come up all of the time but there are a lot of different schools of thought about it.

Here this morning, you have already indicated that you have a strong feeling that money markets, mutual funds should have reserves.

Of course, this has come about because of the disintermediation of deposits from institutions like banks and savings and loans to moneymarket mutual funds. I grant you that it looks to me that if this tremendous volume of funds, over $200 billion, on which there are no reserves are troublesome. It looks to me like this has created some problems for the Fed in controlling the monetary supply. Is this the case?

Mr. MARTIN. I think it has certainly affected the implementation of monetary policy; yes, sir.

Mr. BARNARD. But on the other hand, we know that we are not going to get any reserves against moneymarket mutual funds, do we?

Mr. MARTIN. I am sorry?

Mr. BARNARD. We know we are not going to get reserves on moneymarket mutual funds?

Mr. MARTIN. I will stipulate to that, at this time.

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Mr. BARNARD. I think we had that example last year, Mr. Chairman. One of our colleagues introduced a bill and 3 weeks later, he decided he didn't even want to hear about it any more. I think he got 20,000 letters from his own district.

I think we can take that as a premonition that we are not going to have reserves against moneymarket mutual funds.

So then, the next point comes, is what is then equitable for banks, savings and loans, credit unions, and mutual savings banks?

If we are going to go to that point of equity, why isn't some thought given by the Fed to paying interest on reserves. That would certainly offset some of the taxation that banks are having to pay to serve the public as opposed to nonfinancial institutions who keep no reserves and who are not paying this tax while rendering the same service that a bank is giving?

Mr. MARTIN. I think that is a valid point. We have considered this as a concept of payment of interest on those deposits we hold. The revenue lost to the Treasury is very, very substantial indeed, in that regard, and we are short of that kind of a very substantial change in practice.

We are, of course, in the process of reducing the reserve requirements generally in consonnance with the demands of the Monetary Control Act. That is, reserve percentages are coming down.

Mr. BARNARD. But still in the essence of equity and fairness, they are losing a tremendous amount of interest that they could be earning on those reserves.

Somewhere along the way, there could be a middle ground whereby interest should be paid on reserves to such a degree that it would possibly influence banks to be more interested in joining the Fed.

Mr. MARTIN. I wouldn't quarrel with that thesis at all.

Mr. BARNARD. Has the Fed ever done a study on how that could be done?

Mr. MARTIN. I am told that both past Chairmen Arthur Burns and G. William Miller supported the payment of interest on required reserves in past testimony before this committee.

Mr. BARNARD. Mr. Chairman, maybe that is something our staff ought to look into and develop. If we are going to really move for fairness and equity, as far as depository activities are concerned, it looks like to me that we ought to look into that.

One other question, has the Fed given any consideration for possibly just exempting credit unions entirely from this reserve requirement?

Mr. MARTIN. Not to my knowledge.

Mr. BARNARD. The reason I pose that question is because of the seemingly small amount that credit unions, you know, are subject to reserve today.

The figures that I saw stated that only about one one-thousandths of the total reserves required under Reg D were lodged by credit unions, and that all but $8 million of credit union reserves, or $34 million, was held as vault cash.

It just appears to me that maybe this would be an expense to credit unions that we don't need to impose upon them.

Mr. MARTIN. I think we were hopeful by the Congress adopting one or the other of the exemption processes, Congressman, that, in

effect, thousands, you know, 17,000 or 18,000 credit unions would be exempted in that fashion.

Mr. BARNARD. Thank you, sir.

I have no further questions.

Chairman FAUNTROY. I thank the distinguished Vice Chairman of the Federal Reserve Board for his very fine testimony. And, as indicated earlier, your prepared statement and tables will be included in the record.

Mr. MARTIN. Thank you, sir.

Chairman FAUNTROY. We now move to a panel of witnesses, led off by Mr. H. Lee Boatwright, National Association of Mutual Savings Banks; Mr. John Hutchinson, president of the National Association of Federal Credit Unions; Mr. James C. Barr, executive vice president of the Credit Union National Association; and Mr. Lamar Brantley, staff vice president, U.S. Savings Association. We welcome each of these distinguished witnesses to our hearings.

Mr. Boatwright, please begin.

STATEMENT OF H. LEE BOATWRIGHT, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Mr. BOATWRIGHT. Thank you, Mr. Chairman, members of the committee.

It is a pleasure to be here today to present the views of the savings bank industry on H.R. 6222, the Reserve Requirements Reform Act of 1982.

I am president of the Central Savings Bank in Baltimore, Md., and represent the National Association of Mutual Savings Banks. The National Association of Mutual Savings Banks represents the Nation's 435 savings banks which do business in 16 States. Mutual savings banks are primarily real estate lenders with mortgage investments constituting approximately two-thirds of industry assets. We appreciate the opportunity to testify at this hearing and I would like to state at the outset that our industry also appreciates the support which you have provided to savings banks and thrift industry in general during your years of service on the House Banking Committee.

The jurisdiction of the Domestic Monetary Policy Subcommittee covers a broad range of issues, but is centered on the monetary policies of the Federal Reserve Board. We share this interest for a number of reasons, but primarily because these policies have always had a tremendous influence on savings bank deposit flows and mortgage investment capabilities.

I am going to skip over some of my testimony which has been submitted for the record and proceed in the interest of time.

Notwithstanding what is clearly the worst period for the thrift industry since the depression years, I can report to you that there is no weakening of our industry support for the monetary policy objectives now being pursued by the Federal Reserve Board.

In 1980, when Congress decided it was in the best interest of the Nation to reserve transaction, we did not interpose any major objections.

We continued to comply with the act and its implementing regulations, which, as you know, call for the gradual phase-in of equal

reserve requirements of the thrift institutions and commercial banks.

We believe that today's hearing provides a timely opportunity to review the workings of the 1980 Monetary Control Act, and to discuss possible improvements and modifications to that act, such as H.R. 6222.

The savings bank industry fully supports the legislation, introduced by you on April 29, 1982, that would exempt the first $2 million in reservable liabilities from reserve requirements.

This legislation would sanction and make permanent the administrative posture assumed to date by the Federal Reserve that has essentially deferred the impact of the act insofar as small financial institutions are concerned.

H.R. 6222 would have the effect of exempting altogether a significant number of institutions—as already heard in previous testimony from the reserve requirements of the 1980 legislation. Since mutual savings banks average approximately $350 million in deposits, most would clearly not fall within this category, but all institutions stand to benefit from a reduction in the amount of deposits which must be reserved against.

The basic trade-off in evaluating H.R. 6222 is whether the compliance costs on the part of the depository institutions and the processing of paperwork on the part of the Federal Reserve, which would have to be undertaken in the absence of this legislation, can be justified by the degree to which the Fed's monetary policy capabilities would be enhanced.

The conduct of monetary policy is an inexact science, as you know, and thus in our view this balancing of interest comes down clearly on the side of exempting the first $2 million in reservable liabilities.

You have specifically requested comments on the budgetary implication of this legislation. This question arises, of course, because the Fed earns interest on reserve accounts which, after paying its overhead costs, is returned to the Treasury on an annual basis.

At this point, most nonmember institutions are still in the early stage of their 8-year phase-in of reserve requirements, and thus are able to satisfy their reserve requirements without maintaining a positive balance in a reserve account at a Federal Reserve Bank or eligible pass-through depository.

However, many smaller institutions, particularly those without in-house computer capabilities, incur significant costs in generating the necessary weekly reports only to conclude at the end thereof that no reserves actually are required.

This leads us to the conclusion that the cost benefit is in favor of the exemption which would reduce compliance costs on the part of numerous financial institutions. Over time, this could change, but we are firmly of the view that the administrative streamlining to be gained from H.R. 6222 for both depositories and the Fed is well worth the interest income that might have to be foregone at some later point.

Since savings banks are subject to reserve requirements only on their transaction accounts and nonpersonal time deposits—categories which constitute less than 4 percent of total liabilities—the industry is for the most part still able to satisfy its reserve require-

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ments with vault cash after making adjustments for demand balances and items in the process of collection.

With respect to access to the discount window, progress has not been quite so smooth, but after some 18 months of deliberation and considerable prodding from the Congress and by our industry, in particular, thrift institutions and other nonmember depositories have been able to obtain credit at the discount window under a program that is more compatible with their long-term portfolio structure.

We believe that there continues to be room for improvements to this program, particularly with respect to eligibility, loan conditions and other restrictions on management discretion while the loan is outstanding.

Looking back then, Mr. Chairman, over the period of approximately 15 months since the Monetary Control Act became effective, we can point to only one aspect which still represents a glaring deficiency and this is the fact that money market mutual funds are not included within the scope of the Fed's reserve-setting authority.

This has been discussed before, but we would like to make the point again. In 1976, when the Congress first began debating in earnest the subject of universal requirements, money market mutual funds had approximately $3.3 billion in total assets. Just recently, the funds surpassed the $200 billion mark, which is larger than both the credit union and mutual savings bank industries combined.

While the mutual fund industry is fond of pointing to legal distinctions between the third-party payment feature which they offer and traditional checking accounts, there really is no practical difference between NOW accounts offered by savings banks, share drafts offered by credit unions, and the check-writing capabilities of money market mutual funds.

In 1980, the Federal Reserve made a very strong case that in order to control the money supply, it was necessary for the central bank to have reserves on third-party payment accounts, regardless of the type of institution holding the funds. Our association and the Congress itself were eventually persuaded that the fight against inflation required the Federal Reserve to have this additional monetary tool, and the same argument should hold true for the money market mutual funds.

In conclusion, Mr. Chairman, exempting the first $2 million in reservable liabilities, as is contemplated under the terms of H.R. 6222, is a much-needed step in the right direction, but we urge this subcommittee to address as well the broader question of bringing our competitors—the money market mutual funds—under the reserve-setting authority of the Monetary Control Act.

Thank you again for the opportunity to present these views; I would be pleased to answer any questions you may have at this time.

[Mr. Boatwright's prepared statement, on behalf of the National Association of Mutual Savings Banks, follows:]

Statement
of the
National Association of Mutual Savings Banks
on H.R. 6222
before the
House Subcommittee on Domestic Monetary Policy
of the
Committee on Banking, Finance and Urban Affairs
United States House of Representatives
June 16, 1982

It is a pleasure to be here today, Mr. Chairman, to present the views of the savings bank industry on H.R. 6222, the Reserve Requirements Reform Act of 1982. My name is H. Lee Boatwright, III, and I am president of the Central Savings Bank, Baltimore, Maryland. The National Association represents the nation's 435 savings banks which do business in 16 states and have total assets of $175 billion. Mutual savings banks are primarily real estate lenders with mortgage investments constituting approximately two-thirds of industry assets.

We appreciate the opportunity to testify at this hearing, and I would like to state at the outset that our industry also appreciates the support which you have provided to savings banks, and the thrift industry in general, during your years of service on the House Banking Committee. The jurisdiction of the Domestic Monetary Policy Subcommittee covers a broad range of issues, but is centered on the monetary policies of the Federal Reserve Board. We share this interest for a number of reasons, but primarily because these policies have always had a tremendous influence on savings bank deposit flows and mortgage investment capabilities. The current period is certainly no exception.

In the course of our testimony, I will comment on four general areas. First, a brief report on the state of the industry; second, our specific comments on H.R. 6222; third, some observations on the administration of the Monetary Control Act which went into effect in 1980; and, finally, we would

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like to draw some attention to a glaring inequity in the current law governing reserve requirements, namely, its failure to cover the fastest growing segment of the financial industry — money market mutual funds.

State of the Savings Bank Industry

As a general rule, savings bank deposit flows have accelerated in periods of monetary ease and slackened during periods of monetary restraint. Consistent with this pattern, savings banks have incurred record disintermediation during this unprecedented period of restrictive monetary policy and the resulting high interest rates available to investors on the open market. In 1981 the savings bank industry experienced a $13.8 billion deposit loss, excluding interest. No turnaround is yet in sight and, in fact, the first four months of 1982 witnessed another $4 billion in savings outflows. Bottom-line losses continued to mount in early 1982, and our projections indicate that 1982 will produce more red ink in the savings bank industry than even the record $1.4 billion loss sustained in calendar year 1981.

As is well known, these losses are attributable directly to the combination of rising deposit costs and the earnings drag of low-yielding mortgages acquired years earlier pursuant to the federal policy of promoting housing. As a result of this "negative spread," the industry's surplus to assets ratio declined from 6.6 percent at the end of 1980 to 3.7 percent at the end of 1981. It is important to note, however, that net worth at individual institutions varies widely within the industry average, and is at extremely low levels in far too many instances. Indeed, nine savings banks, representing 8 percent of total industry assets, have already been merged on a supervisory basis by the FDIC.

We are hopeful that final congressional action will come soon on the House-approved legislative proposals such as H.R. 4603 and H.R. 6267 which address the current thrift industry crisis. These bills are necessary because

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under any reasonable interest rate scenario, an increasing number of savings banks and savings and loan associations will exhaust their net worth in the months ahead.

The Reserve Requirements Reform Act of 1982

Notwithstanding what is clearly the worst period for the thrift industry since the depression years, I can report to you that there is no weakening in our industry support for the monetary policy objectives now being pursued by the Federal Reserve Board. In 1980 when the Congress determined that it was in the best interests of the nation to extend reserve requirements to transaction and certain other accounts at nonmember depository institutions, we did not interpose any major objections. We continue to comply with the Act and its implementing regulations which, as you know, call for the gradual phase-in of equal reserve requirements for thrift institutions and commercial banks.

We believe that today's hearing provides a timely opportunity to review the workings of the 1980 Monetary Control Act, and to discuss possible improvements and modifications to that Act, such as H.R. 6222. The savings bank industry fully supports the legislation, introduced by you on April 29, 1982, that would exempt the first $2 million in reservable liabilities from reserve requirements. This legislation would sanction and make permanent the administrative posture assumed to date by the Federal Reserve that has essentially deferred the impact of the Act insofar as small financial institutions are concerned.

H.R. 6222 would have the effect of exempting altogether a significant number of institutions — primarily credit unions and rural commercial banks — from the reporting and other compliance requirements of the 1980 legislation. Mutual savings banks, which average approximately $350 million

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in deposits, would clearly not fall within this category, but all institutions stand to benefit from a reduction in the amount of deposits which must be reserved against.

The basic trade-off in evaluating H.R. 6222 is whether the compliance costs on the part of the depository institutions and the processing of paperwork on the part of the Federal Reserve, which would have to be undertaken in the absence of this legislation, can be justified by the degree to which the Fed's monetary policy capabilities would be enhanced. The conduct of monetary policy is an inexact science, to say the least, and thus in our view this balancing of interest comes down clearly on the side of exempting the first $2 million in reservable liabilities.

You have specifically requested comments on the budgetary implication of this legislation. This question arises, of course, because the Fed earns interest on reserve accounts which, after paying its overhead costs, is returned to the Treasury on an annual basis. At this point, most nonmember institutions are still in the early stage of their eight-year phase-in of reserve requirements, and are thus able to satisfy their reserve requirements without maintaining a positive balance in a reserve account at a Federal Reserve Bank or eligible pass-through depository. However, many smaller institutions, particularly those without in-house computer capabilities, incur significant costs in generating the necessary weekly reports only to conclude at the end thereof that no reserves actually have to be posted.

This leads us to the conclusion that the cost benefit is in favor of the exemption which would reduce compliance costs on the part of numerous financial institutions. Over time, this could change, but we are firmly of the view that the administrative streamlining to be gained from H.R. 6222 for both depositories and the Fed is well worth the interest income that might have to be foregone at some later point.

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The Administration of the Monetary Control Act

Since savings banks are subject to reserve requirements only on their transaction accounts and nonpersonal time deposits — categories which constitute less than 4 percent of total liabilities — the industry is for the most part still able to satisfy its reserve requirements with vault cash after making adjustments for demand balances and items in the process of collection. Moreover, we do not anticipate any operational problem arising even as positive reserve balances become the rule rather than the exception. We are also pleased to report that our industry experience with the pricing and availability of Fed services, especially ACH activities, has been generally satisfactory, and this is primarily due to the conscientious efforts made by the staffs of the Federal Reserve Board in Washington and at the District Banks to reach out to the new categories of service users.

With respect to access to the discount window, progress has not been quite so smooth, but after some 18 months of deliberation and considerable prodding from the Congress and by our industry, in particular, thrift institutions and other nonmember depositories have been able to obtain credit at the discount window under a program that is more compatible with their long-term portfolio structure. I refer here to the so-called "extended credit" program announced by the Federal Reserve in August 1981, which is designed to help thrift institutions overcome any liquidity problems that might arise during this period of severe strain. We believe that there continues to be room for improvements to this program, particularly with respect to eligibility, loan conditions and other restrictions on management discretion while the loan is outstanding. We also need better coordination and greater parallelism between the administration of the discount window and the advance program conducted by the Federal Home Loan Bank Board.

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Money Market Mutual Funds

Looking back then, Mr. Chairman, over the period of approximately fifteen months since the Monetary Control Act became effective, we can point to only one aspect which still represents a glaring deficiency and this is the fact that money market mutual funds are not included within the scope of the Fed's reserve setting authority. In 1976 when the Congress first began debating in earnest the subject of universal requirements, money market mutual funds had approximately $3.3 billion in total assets. Just recently, the funds surpassed the $200 billion mark, which is larger than both the credit union and mutual savings bank industries.

Of particular significance to this subcommittee, to the Congress, and to all those responsible for overseeing the proper functioning of our financial system, is not simply the past growth of the funds, but their continued growth potential. In the first four months of 1982 the number of funds increased sharply, and there are now nearly twice as many money market funds in operation as a year earlier. With the continued earnings restraints on thrift institutions and the need to move away from Regulation Q only on the most cautious basis, there is no realistic basis for expecting the exodus of consumer savings from the insured banking system to the unregulated, short-term money markets to abate. Thus we are confronted with the prospect of continued adverse impact on the credit markets in the form of excessive reliance on short-term credit and a drain-off of funds for local communities.

While the mutual fund industry is fond of pointing to legal distinctions between the third-party payment feature which they offer and traditional checking accounts, there really is no practical difference between NOW accounts offered by savings banks, share drafts offered by credit unions and the check-writing capabilities of money market funds. In 1980 the Federal Reserve made a very strong case that in order to control the money supply it

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was necessary for the central bank to have reserves over third-party payment accounts regardless of the type of institution holding the funds. Our Association and the Congress itself were eventually persuaded that the fight against inflation required the Federal Reserve to have this additional monetary tool, and the same argument should hold true for money market mutual funds.

Even though reserve requirements must be maintained as non-earning assets and thus represent an obvious increase in the cost of doing business, depository institutions have, as noted, cooperated fully with the Fed's implementation of the Monetary Control Act. Having done our part, we believe it is only fair to expect that the Congress should now take similar action with respect to money market mutual funds which continue to operate in a totally unregulated manner insofar as their banking activities are concerned.

In conclusion, Mr. Chairman, exempting the first $2 million in reservable liabilities, as is contemplated under the terms of H.R. 6222, is a much needed step in the right direction, but we urge this subcommittee to address as well the broader question of bringing our competitors -- the money market mutual funds — under the reserve setting authority of the Monetary Control Act.

Thank you again for the opportunity to present these views; I would be pleased to answer any questions you may have at this time.

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Chairman FAUNTROY. I thank you. We will hear the statements of each of the members of our panel and then we will be pleased to give you each some questions.

Let me say, before we move to our next witness, that I was among those who introduced legislation on reserve requirements for money market funds. While I did not receive 20,000 communications from my constituents, I did receive a considerable amount and I do hope that at an appropriate time, we will at least explore the wisdom of what Mr. Boatwright has said, and the Federal Reserve has previously testified to—the inability to draw a distinction between the NOW accounts and the money market funds—when some of the M1 aggregate should include money market mutual funds. We might give serious consideration to the prospect of requiring reserves on those funds again, at a future date.

Having stated that, and knowing that my colleague will want to comment, I will move quickly to the next witness, Mr. Hutchinson.

STATEMENT OF JOHN J. HUTCHINSON, PRESIDENT, NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Mr. HUTCHINSON. Thank you, Mr. Chairman.

Chairman Fauntroy and members of the Subcommittee on Domestic Monetary Policy, I am John J. Hutchinson, president of the National Association of Federal Credit Unions, commonly known as NAFCU. I am also manager of the Hamilton Standard Federal Credit Union in Windsor Locks, Conn., that is my vocation. It is a pleasure for me to appear before you this morning to share with the members of this subcommittee NAFCU's policy recommendations as you consider the Reserve Requirements Reform Act of 1982.

We commend Chairman Fauntroy for introducing H.R. 6222—this bill is clearly a positive first step in the right direction.

NAFCU also recommends that the members of this subcommittee seriously consider exempting all credit unions from the reporting and reserving requirements imposed by regulation D. I might just add at the end of March 1982, a total of $40.55 billion was posted as reserves by all institutions falling under regulation D. As of May 19, credit unions had $42 million in reserves. That is one one-thousandths of the total regulation D reserves or 0.1 percent of all reserves. All but $8 million of credit union reserves was held by credit unions in terms of vault cash. Thus, the amount passed through to the Fed amounted to $8 million of the total $40.55 billion.

I might also add that the vault cash requirements for a credit union also impacts upon the earnings on those cash items.

Mr. BARNARD. Would the gentleman yield? Would you have any records to show how much it cost the credit unions to file these reports and to comply with regulation D for that small amount?

Mr. HUTCHINSON. Congressman, I don't have that information at hand, but I think that we do have some figures and would be glad to send them to you.

[Mr. Hutchinson subsequently sent the following letter to Congressman Barnard containing the requested information:]

National Association of
Federal Credit Unions

1111 N. 19th Street
Arlington, Virginia 22209

703/522-4770

June 17, 1982

The Honorable D. Douglas Barnard
236 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Barnard:

Yesterday I testified on behalf of the National Association of Federal Credit Unions (NAFCU) before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs concerning the merits of the Reserve Requirements Reform Act of 1982 (H.R. 6222). At the conclusion of my prepared statement you asked that I submit for the record the costs incurred by credit unions in complying with the reporting and reserving requirements of the Monetary Control Act (Title I, Public Law 96-221). In accordance with your request, I respectfully submit the following response.

At present, approximately 16.9% of all credit unions file reports with the Federal Reserve Board in compliance with the existing Regulation D requirements. Yet only 0.7% of all credit unions are actually required to post reserves with the Federal Reserve System. In terms of the actual number of institutions involved (a total of 20,481 credit unions nationwide), there are 3,468 required to file Regulation D reports; however, only 130 are required to actually post reserves.

As I noted in my testimony before the Subcommittee, at the end of March 1982 a total of $40.55 billion was posted as reserves by all institutions falling under the provisions of Regulation D. As of May 19, 1982, credit unions were required to set aside $42 million in the form of Regulation D reserves. That is 1/1000 of total Regulation D reserves, or 0.1%. All but $8 million of credit union reserves — $34 million -- was held by credit unions in the form of vault cash. Thus, only $8 million of a total of $40.55 billion in reserves was transferred to the Federal Reserve System by credit unions. In other words, of all reserves required to be posted with the Federal Reserve System by Regulation D, the credit union contribution amounts to only 0.0001972% of the total!

How much does it cost each credit union to comply with Regulation D's reporting and reserving requirements? The actual cost will vary from credit union to credit union, depending upon numerous variable factors. The best estimate might be one obtained from the Federal Reserve Board. In order to comply with Office of Management and Budget (OMB) procedures for clearance of paperwork associated with the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900), the Federal Reserve obtained estimates of the continuing annual man-hours required to complete this report. According to the Federal Reserve Board a rough estimate of the average number of man-hours per respondent required to complete this report was about 5 man-hours, resulting in a total annual respondent man-hour estimate of about 4 million man-hours.

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I would like to remind you, Representative Barnard, that while Title I of Public Law 96-221 established mandatory reserve requirements for regulated depository institutions, Title VIII (The Financial Regulation Simplification Act of 1980) of that same Public Law states quite clearly that:

> ... many regulations issued by the Board of Governors of the Federal Reserve System ... often impose costly, duplicative, and unnecessary burdens on both financial institutions and consumers. Regulations should be simple and clearly written. Regulations should achieve legislative goals effectively and efficiently. Regulations should not impose unnecessary costs and paperwork burdens on the economy, on financial institutions or on consumers.

Recognizing the fact that of all reserves required to be posted with the Federal Reserve System in compliance with Regulation D the credit union contribution amounts to only 0.0001972% of the total, I suggest to you and your colleagues in the Congress that this is a clear example of the imposition of "unnecessary costs and paperwork burdens on the economy, on financial institutions or on consumers" which the Financial Regulation Simplification Act of 1980 was designed to avoid! It is the belief of the National Association of Federal Credit Unions that exempting credit unions from the reporting and reserving requirements of the Monetary Control Act would reflect the intent of Congress in enacting Title VIII of Public Law 96-221, and also be wholly consistent with the plain language of the Regulatory Flexibility Act (Public Law 96-354) and the Paperwork Reduction Act (Public Law 96-511).

With these facts in hand, Representative Barnard, I urge you and your colleagues in the Congress to exempt all credit unions from the onerous reporting and reserving requirements of the Monetary Control Act at the earliest possible opportunity. Such action by the Congress would truly give meaning to the Financial Regulation Simplification Act of 1980, the Regulatory Flexibility Act and the Paperwork Reduction Act -- well-intentioned measures enacted by the 96th Congress designed to avoid situations such as that which presently exists vis a vis credit unions and the Federal Reserve Board's overly-broad Regulation D.

Thank you for the opportunity to share these views with you. I ask that this letter be included in the hearing record concerning H.R. 6222, the Reserve Requirements Reform Act of 1982. If you or your colleagues have any questions regarding the matters addressed in this letter, or any other issues affecting our nation's member-owned Federal credit unions, please do not hesitate to contact NAFCU's director of government affairs and federal legislative counsel, Bill Donovan, at 522-4770.

Sincerely,

John J. Hutchinson
President

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Mr. HUTCHINSON. In 1980, we witnessed the enactment of what was characterized as "landmark legislation" affecting our nation's financial institutions. A primary purpose of the Depository Institutions Deregulation and Monetary Control Act was to create a so-called level playing field on which banks and savings and loan associations could equitably compete in their efforts to serve the public. The legislation also contained provisions affecting credit unions, including confirmation of the legality of share drafts. We appreciate the assistance which many of the members of this subcommittee provided in securing that necessary authority.

However, the broadening of credit union services made possible by the enactment of Public Law 96-221 does not in any way imply that credit unions are becoming just like banks. The NAFCU Board of Directors and members want to be certain that you and your colleagues in the Congress are fully aware of the many differences which distinguish credit unions from other forms of financial institutions. Every credit union is controlled by its members through elected volunteer officials, a characteristic unique to credit unions. In their day-to-day decisionmaking, credit union officials are not motivated by the need to make a profit for a separate group of stockholders.

Credit unions don't have customers they do not serve the general public—every credit union member belongs to a cooperative association with a restricted field of membership. Every credit union has a supervisory committee which serves as an ombudsman for the members. I would also like to emphasize that Federal credit unions do not accept deposits from their members; rather, each credit union member holds an equity interest in the credit union. This is an extremely important characteristic which distinguishes credit unions from other types of institutions and one which I will discuss further in a few moments.

The Monetary Control Act of 1980 imposes mandatory sterile reserve requirements on transaction accounts and nonpersonal time deposits of all depository institutions, regardless of size. In adopting a revised regulation D, the Federal Reserve Board deferred reserve and deposit reporting requirements of nonmember institutions that had less than $2 million in total deposits as of December 31, 1979. The deferral was reportedly granted on the basis that immediately requiring such institutions to submit reports and maintain reserves might have caused significant operational difficulties for the Federal Reserve System, and would have thus interfered with the implementation of the act. In April, the deferral was extended until December 31, 1982, "by which time Congress will have had an opportunity to act upon the legislative initiatives to make permanent the exemption for small depository institutions."

In my opening remarks, I noted that Federal credit unions do not accept deposits from their members. In fact, credit union members are owners of their credit unions, they buy a share in their credit union and make payments to their share account. While credit union share accounts might appear similar to deposit accounts at banks and savings and loan associations, there are critical legal and practical distinctions which must be emphasized. A credit union share is an equity instrument upon which dividends are declared according to the credit union's ability to pay such dividend.

Thus, a credit union share is fundamentally different and distinguishable from a bank or savings and loan deposit, which is a debt instrument.

A deposit represents a liability of a bank or savings and loan association, and provides a fixed rate of return in the form of interest. This distinguishing characteristic of credit union shares, in many respects, more closely resembles a money market mutual fund account than a bank or savings and loan association deposit.

In recognition of this fact, NAFCU believes that it would be proper and appropriate to extend to all credit unions the total exemption from regulation D reporting and reserving requirements presently enjoyed by the money market mutual funds. By that statement, we are by no means getting in bed with them. We are making a comparison of the type of funds you are talking about.

One of the primary reasons for enactment of the Monetary Control Act of 1980 was to provide the Board of Governors of the Federal Reserve System with sufficient resources to reasonably and responsibly exercise control over the money supply. While NAFCU certainly supports this necessary goal, we question the need for credit union reporting and reserving in pursuit of that goal.

An impartial examination of statistics relevant to credit union reporting and reserving reveals some interesting facts. While approximately 16.9 percent of all credit unions presently file reports with the Federal Reserve Board in compliance with the existing regulation D requirements, only 0.7 percent of all credit unions are actually posting reserves and I updated you further than that before with the Fed. In terms of the actual number of institutions involved, a total of 20,481 credit unions nationwide, there are 3,468 required to file regulation D reports, however, only 150 actually post reserves. In addition, credit unions are reported to hold no more than 4 percent of a total transaction account/nonpersonal time deposit balances of all institutions which presently fall within the scope of the Monetary Control Act's mandatory reporting and reserving requirements.

It appears inconsistent to me to require, under the provisions of the Monetary Control Act, that credit unions with their $81 billion in assets nationwide file reports and post reserves with the Federal Reserve, while excusing from this requirement the largely unregulated money market mutual funds, whose assets now exceed $200 billion. If one of the purposes of filing information reports and posting reserves is to assist the Federal Reserve in determining monetary policy, one must conclude that the information concerning money market mutual fund activity would be essential to achieving that goal, while the information concerning credit union activities would have, at most, a marginal impact on decisions regarding monetary policy.

Just 6 months ago, Dr. Almarin Phillips appeared before the House Banking Committee to discuss the fundamental questions raised by the committee print entitled "Financial Institutions in a Revolutionary Era." In his testimony, Dr. Phillips, who played a key role in drafting the Hunt Commission report, addressed the subject of reserve requirements. He noted that:

> Mandatory reserve requirements of the sort now exercised by the Fed do not provide for deposit safety and institutional soundness.

Fed reserve requirements in their present form are universally recognized as being the equivalent of a tax.

We would concur with Dr. Phillips. In addition, I would add that it was never the intent or purpose of the Federal Reserve System to be in the profitmaking business.

Yet the Federal Reserve System has turned over to the Treasury of the United States more than $47.9 billion over the course of the past 5 years. I would suggest to the members of this subcommittee that very few members of the American public are aware of this fact, and therefore fail to recognize this additional tax burden that they all carry.

If it is necessary for credit unions to continue filing reports and posting reserves with the Federal Reserve System, NAFCU suggests that the Fed pay interest on required reserve balances. Using reasonably conservative assumptions about various rates of monetary growth, by 1990, reserves will probably constitute around 10 percent of total Federal Reserve liabilities. As such, reserve balances will account for a relatively minor part of total Federal Reserve earnings. The phasing in of reserve interest payments could be undertaken over a 5-year period so as to moderate in the earlier years reduction of transfers of revenue by the Federal Reserve to the Treasury. Total transfers have risen sharply in recent years—from $3 billion in 1969 to $14 billion in 1981. It is reasonable to assume, given the competitive conditions of financial markets, that interest payments by the Fed on reserves would be reflected in the marketplace in the form of lower loan rates for borrowers, and higher earnings rates for savers. Accordingly, there would be a smaller amount of deductions from taxable personal income representing interest payments on loans and greater interest income earned by savers.

It has been estimated that the phasing in of interest on reserve requirements, as we have just proposed, would reduce Federal Reserve earnings only slightly—by about 2 percent each year, or 10 percent after full implementation. The measure presently under consideration by this subcommittee would codify, with some modifications, the temporary provisions approved by the Board of Governors of the Federal Reserve System that deferred the reporting and maintenance by nonmember institutions with total deposits of less than $2 million of reserve balances. Specifically, H.R. 6222 would extend to all institutions an exemption for the first $2 million of what would otherwise be reservable accounts. Unless Congress acts favorably upon this or some other measure before adjourning, the temporary small institution exemption might lapse before the 98th Congress convenes.

Allowing the deferral to lapse in such a manner would certainly be unnecessarily disruptive for both the Federal Reserve System and the thousands of small institutions—most of which are credit unions—which would suddenly be required to file reports and post reserves under the provisions of the Monetary Control Act. Accordingly, Mr. Chairman, NAFCU urges you and your colleagues to act promptly on this important matter. If, because of time constraints, the Congress is unable to address the other concerns NAFCU has raised in regard to this complex issue prior to adjournment, we re-

spectfully request that these additional subjects be thoroughly examined early in the 98th Congress.

Mr. Chairman, thank you for the opportunity to appear before your subcommittee this morning. This association, as always, remains most willing to assist you and your colleagues as you consider matters affecting the future of our Nation's financial institutions.

I would be pleased to respond to any questions at this time.

[Mr. Hutchinson's prepared statement, on behalf of the National Association of Federal Credit Unions, follows:]

NAFCU

National Association of
Federal Credit Unions

1111 N. 19th Street
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Statement of John J. Hutchinson

President Of

The National Association of Federal Credit Unions

Before

The Subcommittee on Domestic Monetary Policy

Of The

Committee on Banking, Finance and Urban Affairs

U.S. House of Representatives

Regarding

The Reserve Requirements Reform Act of 1982

H.R. 6222

June 16, 1982

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Chairman Fauntroy and members of the Subcommittee on Domestic Monetary Policy, I am John J. Hutchinson, president of the National Association of Federal Credit Unions (NAFCU), and manager of Hamilton Standard Federal Credit Union in Windsor Locks, Connecticut. It is a pleasure for me to appear before you this morning to present not only my own views, but those of the NAFCU members. There are approximately 12,000 Federal credit unions throughout the country, representing more then 25 million consumer members. NAFCU is the only national organization exclusively representing the interests of credit unions chartered by the federal government.

We appreciate the opportunity to share with the members of this subcommittee NAFCU's policy recommendations as you consider the "Reserve Requirements Reform Act of 1982" (H.R. 6222), which Chairman Fauntroy introduced on April 29th. This bill would amend the Federal Reserve Act to exempt from reserve requirements the first $2 million in deposits and accounts of depository institutions, which otherwise would be subject to reserve requirements. While we commend Chairman Fauntroy for introducing H.R. 6222 -- this bill is clearly a positive first step in the right direction -- NAFCU recommends that the members of this subcommittee seriously consider exempting all credit unions from the reporting and reserving requirements imposed by Regulation D. The justifications for following such a course of action are set forth below.

CREDIT UNIONS REMAIN FUNDAMENTALLY DIFFERENT

In 1980 we witnessed the enactment of what was then characterized as "landmark legislation" affecting our nation's financial institutions. A primary purpose of the Depository Institutions Deregulation and Monetary Control Act (Public Law 96-221), signed into law by President Carter on March 31, 1980, was to create a so-called "level playing field" on which banks and savings and

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loan associations could equitably compete in their efforts to serve the public. The legislation also contained provisions affecting credit unions, including confirmation of the legality of share drafts. We appreciate the assistance which many of the members of this subcommittee provided in securing that necessary authority.

However, the broadening of credit union services made possible by the enactment of Public Law 96-221 does not in any way imply that credit unions are becoming "just like banks". The NAFCU Board of Directors and members want to be certain that you and your colleagues in the Congress are fully aware of the many differences which distinguish credit unions from other forms of financial institutions. It is NAFCU's objective to preserve and strengthen the truly unique characteristics of credit unions since these differences are largely responsible for the success of credit unions, and the financial well-being of credit union members, during these turbulent economic times.

For example, every credit union is controlled by its members through elected volunteer officials, a characteristic unique to credit unions. In their day-to-day decision making credit union officials are not motivated by the need to make a profit for a separate group of stockholders. Credit unions don't have "customers" or serve the general public -- every credit union member belongs to a cooperative association with a restricted field of membership. Every credit union has a Supervisory Committee which serves as an ombudsman for the members.

I would also like to emphasize that Federal credit unions do not accept deposits from their members; rather, each credit union member holds an equity interest in the credit union. This is an extremely important characteristic which distinquishes credit unions from other types of institutions affected by Regulation D, and one which I will return to and discuss further later in my

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witness statement. First, I would like to highlight the existing Regulation D reserve requirements.

THE PRESENT SMALL INSTITUTION EXEMPTION

The Monetary Control Act of 1980 (Title I of Public Law 96-221) imposes mandatory sterile reserve requirements on transaction accounts and nonpersonal time deposits of all depository institutions, regardless of size. However, in adopting a revised Regulation D, the Federal Reserve Board deferred for six months, until May 1981, reserve and deposit reporting requirements of nonmember institutions that had less than $2 million in total deposits as of December 31, 1979. The deferral was reportedly granted on the basis that immediately requiring such institutions to submit reports and maintain reserves might have caused significant operational difficulties for the Federal Reserve System, and would have thus interfered with the implementation of the Act. For operational reasons, reserve requirements on such institutions were deferred for another six month period until November 1981. When the subject of what has become known as the "small institution exemption" was considered by the Federal Reserve Board in October 1981, the Board extended the deferral until May of 1982 "to lessen the burden for smaller institutions and Reserve Banks, and because of pending legislation that would have exempted smaller institutions from reserve requirements." In April, the deferral was further extended until December 31, 1982 "by which time Congress will have had an opportunity to act upon the legislative initiatives to make permanent the exemption for small depository institutions."

CREDIT UNION SHARES ARE EQUITY INVESTMENTS

In my opening remarks I noted that Federal credit unions do not accept deposits from their members. In fact, credit union members, as owners of their

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credit unions, buy a share in their credit union and make payments to their share account. Credit union shares and bank or savings and loan deposits have distinct differences. While credit union share accounts might appear similar to deposit accounts at banks and savings and loan associations, there are critical legal and practical distinctions which must be emphasized.

A credit union share is an equity instrument upon which dividends are declared according to the credit union's ability to pay such dividend. Thus, a credit union share is fundamentally different and distinguishable from bank or savings and loan deposits, which are debt instruments. A deposit represents a liability of a bank or savings and loan association, and provides a fixed rate of return in the form of interest.

This distinguishing characteristic of credit union shares, in many respects, more closely resembles a money market mutual fund account than a bank or savings and loan association deposit. In recognition of this fact, NAFCU believes that it would be proper and appropriate to extend to all credit unions the total exemption from Regulation D reporting and reserving requirements presently enjoyed by money market mutual funds.

CREDIT UNION RESERVES AND MONETARY POLICY

One of the primary reasons for enactment of the Monetary Control Act of 1980 was to provide the Board of Governors of the Federal Reserve System with sufficient resources to responsibly exercise control over the money supply. While NAFCU certainly supports this necessary goal, we question the need for unnecessary credit union reporting and reserving in pursuit of that goal.

An impartial examination of statistics relevant to credit union reporting and reserving reveals some interesting facts. While approximately 16.9% of all credit unions presently file reports with the Federal Reserve Board in compliance with the existing Regulation D requirements, only 0.7% of all credit unions

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are actually posting reserves with the Fed. In terms of the actual number of institutions involved (a total of 20,481 credit unions nationwide), there are 3,468 required to file Regulation D reports, however, only 150 actually post reserves. In addition, credit unions are reported to hold no more than 4% of the total transaction account/nonpersonal time deposit balances of all institutions which presently fall within the scope of the Monetary Control Act's mandatory reporting and reserving requirements.

It appears inconsistent to me to require, under the provisions of the Monetary Control Act, that credit unions with their $81 billion in assets nationwide file reports and post reserves with the Federal Reserve, while excusing from this requirement the largely unregulated money market mutual funds, whose assets now exceed $200 billion! If one of the purposes of filing information reports and posting reserves is to assist the Federal Reserve in determining monetary policy, one must conclude that the information concerning money market mutual fund activity would be essential to achieving that goal, while the information concerning credit union activities would have, at most, a marginal impact on decisions regarding monetary policy.

STATUTORY MANDATE FOR LESS ONEROUS REGULATION

While Title I of Public Law 96-211 established mandatory reserve requirements for all regulated depository institutions, Title VIII (The Financial Regulation Simplification Act of 1980) of that same Public Law states that:

> ...many regulations issued by the Board of Governors of the Federal Reserve System...often impose costly, duplicative, and unnecessary burdens on both financial institutions and consumers. Regulations should be simple and clearly written. Regulations should achieve legislative goals

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> effectively and efficiently. Regulations should not impose unnecessary costs and paperwork burdens on the economy, on financial institutions or on consumers.

It is the belief of the National Association of Federal Credit Unions that exempting credit unions from the reporting and reserving requirements of the Monetary Control Act would reflect the intent of Congress in enacting the Financial Regulation Simplification Act, and also be wholly consistent with the terms of the Regulatory Flexibility Act (Public Law 96-354) and the Paperwork Reduction Act (Public Law 96-511).

CRITICISM OF STERILE RESERVE REQUIREMENTS

Many members of this subcommittee contributed significantly in the negotiations which led to the enactment by the 96th Congress of Public Law 96-221. NAFCU commended you for your efforts at that time, and this morning I repeat our expression of sincere gratitude. Many of the provisions contained in that law were then and remain today vitally important to the credit unions NAFCU represents. However, all must concede that the "Fed membership" question was then and remains today shrouded in controversy.

Should Fed membership be mandatory or voluntary? Should reserves be universal or selective? Should they be sterile or interest earning? These were difficult questions to deal with then, and continue to evoke strong opinions from proponents of conflicting views.

Just six months ago Dr. Almarin Phillips appeared before the House Banking Committee to discuss the fundamental questions raised by the Committee print entitled "Financial Institutions in a Revolutionary Era". In his testimony Dr. Phillips, who played a key role in drafting the Hunt Commission Report, addressed the subject of reserve requirements. He noted that:

> Mandatory reserve requirements of the sort now exercised by the Fed <u>do not</u> provide for deposit safety and institutional soundness. Their rationale is and has been their use in the control of the money supply -- or more accurately, control over deposit

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> creation by the banking system. The extension of reserve requirements to non-member institutions as provided for in the DIDCMA is based on ill-founded arguments that these are necessary for improved monetary controls.
>
> Fed reserve requirements in their present form are universally recognized as being the equivalent of a tax. As such, they impose burdens on all institutions to which they apply. Further, because of the tax-like effect, they invite institutions not subject to the requirements to provide the same type of financial service on a "tax free" basis...
>
> The fact that institutions holding Fed balances in such a scheme would be doing so voluntarily means that the tax-like effects of reserve requirements would be avoided. Further, reserves of this kind can be used for liquidity and "secondary reserve" purposes. With mandatory requirements, that is not the case.

We concur with Dr. Phillips. In addition, I would add that it was never the intent or purpose of the Federal Reserve System to be in the profit making business. Yet the Federal Reserve System has turned over to the Treasury of the United States more than $47.9 billion dollars over the course of the past five years. I would suggest to the members of this subcommittee that very few members of the American public are aware of this fact, and therefore fail to recognize this additional tax burden they carry.

THE COST OF PAYING INTEREST ON RESERVES

If it is necessary for credit unions to continue filing reports and posting reserves with the Federal Reserve System, NAFCU suggests that the Fed pay interest on required reserve balances. Provisions for paying interest on required reserve balances could be established on a straightforward basis:

1. Only required reserve balances would be eligible for "regular" interest. Such balances would be defined as the lesser of: (a) actual balances held, or (b) required reserves minus vault cash.
2. The "regular" interest rate would be defined as the average federal funds rate. Interest on required balances would be payable quarterly.

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3. Interest on excess reserve balances could be paid at the discretion of the Federal Reserve, presumably depending on whether changes in the volume of such reserves were desired in the conduct of monetary policy.

Reserve balances are a steadily declining share of the Federal Reserve's total liabilities. Federal Reserve notes and liabilities other than reserve balances expanded at a substantially faster rate over the past 20 years than did the reserve balances. In fact, such balances dropped from a 34.4% share in 1960 to only 14.6% in 1981. This decline is likely to continue, reflecting chiefly the relatively more rapid growth path of currency, but also the reductions of reserve requirement ratios provided under the 1980 Act for those institutions which were members of the Federal Reserve System prior to the effective date of the Act.

Using reasonably conservative assumptions about various rates of monetary growth, by 1990 reserves will probably constitute around 10% of total Federal Reserve liabilities. As such, reserve balances will account for a relatively minor part of total Federal Reserve earnings.

The phasing in of reserve interest payments could be undertaken over a five-year period (for instance, 1984-1988) so as to moderate in the earlier years reduction of transfers of revenue by the Federal Reserve to the Treasury. Total transfers have risen sharply in recent years -- from $3 billion in 1969 to $14 billion in 1981.

It it is reasonable to assume, given the competitive conditions of financial markets, that interest payments by the Fed on reserves would be reflected in the marketplace in the form of lower loan rates for borrowers, and higher earnings rates for savers. Accordingly, there would be a smaller amount of deductions from taxable personal income representing interest payments on loans, and greater interest income earned by sayers. It has been estimated that the phasing-in of interest on reserve requirements, as we have just pro-

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posed, would reduce Federal Reserve earnings only slightly -- by about 2% each year, or 10% after full implementation.

THE RESERVE REQUIREMENTS REFORM ACT OF 1982 -- H.R. 6222

Mr. Chairman, as I said in my opening remarks, the Reserve Requirements Reform Act of 1982 (H.R. 6222) is certainly a positive first step. Since imposition of mandatory sterile reserves, the Federal Reserve Board has on four separate occasions announced what has generally come to be known as the "small institution exemption." In March of last year the Federal Reserve Board stated quite clearly their desire to continue the practice of exempting small institutions from the reporting and reserving requirements of The Monetary Control Act, but noted that "legislation would be required to make permanent the exemption." This view was reiterated when the Governors of the Federal Reserve System most recently extended the exemption until December 31, 1982. Indeed, the exemption was extended until December 31 in recognition of the fact that:

> An extension of the deferral until that time would run approximately to the end of the second session of the 97th Congress, by which time Congress will have had an opportunity to act upon the legislative initiatives to make permanent the exemption for small depository institutions.

The measure presently under consideration by this subcommittee would codify, with some modifications, the temporary provisions approved by the Board of Governors of the Federal Reserve System that deferred the reporting and maintenance by non-member institutions with total deposits of less than $2 million of reserve balances. Specifically, H.R. 6222 would extend to all institutions an exemption for the first $2 million of what would otherwise be reservable accounts. Unless Congress acts favorably upon this or some other measure before adjourning sine die, the temporary small institution exemption

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might lapse before the 98th Congress convenes. Allowing the deferral to lapse in such a manner would certainly be unnecessarily disruptive for both the Federal Reserve System and the thousands of small institutions -- most of which are credit unions -- which would suddenly be required to file reports and post reserves under the provisions of the Monetary Control Act.

Accordingly, Mr. Chairman, NAFCU urges you and your colleagues to act promptly on this important matter. If, because of time constraints, the Congress is unable to address the other concerns NAFCU has raised in regard to this complex issue prior to adjournment, we respectfully request that these additional subjects be thoroughly examined early in the 98th Congress.

Mr. Chairman, thank you for the opportunity to appear before your subcommittee this morning. This Association, as always, remains most willing to assist you and your colleagues as you consider matters affecting the future of our nation's financial institutions. I would be pleased to respond to any questions at this time.

Chairman FAUNTROY. I thank you for a very comprehensive statement and particularly for the reference to the reserve requirements for money market funds, which my good friend, Mr. Barnard, has raised and which certainly, as you should know, has been a source of concern for me as well.

We will proceed with the next witness, Mr. James C. Barr, after which time we will hear from Mr. Brantley. We will then have some questions for all of you together.

Mr. Barr.

Mr. BARR. Thank you very much, Mr. Chairman.

I have a rather lengthy statement I would like to present for the record, and then a very, very few brief oral remarks that I would like to make in support of your bill.

Chairman FAUNTROY. I want to thank you for that very complete statement, which will be included in its entirely in the record. You may proceed.

STATEMENT OF JAMES C. BARR, EXECUTIVE VICE PRESIDENT, CREDIT UNION NATIONAL ASSOCIATION

Mr. BARR. I am Jim Barr, executive vice president of the Credit Union National Association. We appreciate the opportunity to testify this morning on H.R. 6222.

It addresses an area of extreme concern to credit unions, the elimination of the substantial reserve and reporting requirements of the Monetary Control Act of 1980.

While H.R. 6222 is an important step in relieving financial institutions from the burdens of reporting and reserve requirements of the Monetary Control Act, CUNA supports a broader exemption.

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We believe that as long as the more than $200 billion held by money market mutual funds in transaction-type accounts remains free from the Federal Reserve Board's reserve-setting authority, consistency dictates that credit union deposits should also be excluded from coverage.

When Congress adopted the Monetary Control Act of 1980, it implicitly endorsed the concept of a level playing field at the insistence of the bankers and others. Although the act gave the Federal Reserve Board the authority to vary their reporting requirements among different depository institutions, the Board was not authorized to exempt permanently any class of financial institutions from the reserve requirements.

Therefore, all financial institutions may be required to report to the Federal Reserve Board and will possibly be required to hold reserves.

However, at the time universal reserve coverage in Public Law 96-221 was being debated, money market mutual funds had just begun their meteoric growth and were not even considered a financial intermediary capable of attracting billions of dollars of potential reservable deposits.

Things have changed today. Money market mutual funds hold more than three times the assets of the Nation's 20,000 credit unions. Yet money funds are not covered by the Monetary Control Act.

Credit unions must inevitably question why they should bear a burden of reporting and reserving while their giant money market fund competitors escape coverage entirely. Either reserves should be imposed on all institutions with transaction account capability or credit unions, like money market mutual funds, should be released from the requirements of the MCA.

At the very least, H.R. 6222 marks an important step in resolving the Monetary Control Act's inconsistent treatment of institutions. Thus, CUNA supports adoption of H.R. 6222 as an interim measure to free small credit unions permanently from the time-consuming and costly burdens of meeting the reserve and reporting requirements of the act and of regulation D.

Presently the Federal Reserve Board does not require reporting or reserving by depository institutions with less than $2 million in deposits. This exemption has been granted by the Board under its regulatory authority. However, it is not clear that the Board has the legal authority to continue extending the exemption indefinitely. In fact, the Board has indicated that it is uncomfortable in continuing this exemption without clear legislative approval.

At the same time, the Board has indicated the elimination of the reserve requirement will not affect its ability to conduct monetary policy, but the exemption will reduce the cost of regulation for both the Government and the private sector. CUNA agrees and urges the adoption of H.R. 6222.

Let me just finish, Mr. Chairman, by saying that approximately 98 percent of my members are exempted from reserving under the current regulatory exemption of regulation D. As we interpret the language of your proposal, it does not exempt those same credit unions from reporting. We have suggested language in our prepared statement that we would like the subcommittee to consider

that we believe would remove the burdensome reporting requirement, as well as the reserve requirement.

Thank you very much for giving us this opportunity to testify.

[Mr. Barr's prepared statement, on behalf of the Credit Union National Association, follows:]

STATEMENT OF JAMES C. BARR, EXECUTIVE VICE PRESIDENT, CREDIT UNION NATIONAL ASSOCIATION, INC.

Good day. My name is James C. Barr. I am the Executive Vice President of the Credit Union National Association. The Credit Union National Association, Inc. (CUNA) represents more than 20,000 of the nation's state and federally chartered credit unions through 52 member credit union leagues. These leagues are located in each of the states and the District of Columbia and Puerto Rico. America's credit unions serve more than 47 million citizens.

CUNA POSITION

I appreciate the opportunity to testify before this subcommittee on H.R. 6222, the Reserve Requirement Reform Act of 1982. It addresses an area of extreme concern to credit unions. CUNA commends the Subcommittee Chairman Mr. Fauntroy for the introduction of H.R. 6222 and the prompt manner in which the Subcommittee is holding hearings on this issue. If adopted, the bill would eliminate for many credit unions the substantial reporting requirements of the Monetary Control Act of 1980.

Presently the Federal Reserve Board does not require reporting or reserving by depository institutions with less than $2 million in deposits. This exemption has been granted by the Board using its regulatory authority. It is not clear that the Board has the legal authority to continue the exemption indefinitely. In fact, the Board has indicated for some time that it is uncomfortable continuing this exemption without clear legislative approval. The Board has indicated its desire for Congressional authorization "to establish a permanent exemption from reserve requirements for smaller depository institutions" (Federal Reserve Press Release, April 24, 1981). The

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statutory elimination of the reserve requirement will not affect the Federal Reserve Board's ability to conduct monetary policy. It will reduce the cost of regulation for both the government and private sector.

While H.R. 6222 is an important first step in equalizing the burden of reporting and reserving under the Monetary Control Act, CUNA supports a broader exemption. We believe that as long as more than $200 billion dollars in consumer deposits in money market mutual fund transaction-type accounts remain outside of the Federal Reserve Board's reserve setting authority, credit union deposits should also be excluded from coverage.

CREDIT UNIONS AND THE MONETARY CONTROL ACT OF 1980

CUNA was an active participant in the legislative process that culminated with adoption of Public Law 96-221, the Depository Institutions Deregulation and Monetary Control Act of 1980. As most of the members of this subcommittee will recall, the courts ruled in 1979 that credit union share drafts were not statutorily authorized. CUNA mounted a legislative effort, unprecedented in the history of the credit union movement, to achieve statutory recognition of our share draft service. More than 150,000 letters from credit union members throughout the country poured into Congressional offices asking for the share draft legislation . A very important part of P.L. 96-221 amended the Federal Credit Union Act to provide share draft authority.

In asking for share draft authority, credit unions recognized that share drafts were transaction accounts. Further, CUNA agreed that, when credit

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unions began to generate large dollar volumes in these transaction accounts, these accounts might affect the Federal Reserve Board's ability to conduct monetary policy if they were not subject to the reserve requirements set by the Federal Reserve. This acceptance of our responsibility to cooperate with the Federal Reserve Board in its implementation of monetary policy was, however, conditioned on the realistic expectation that small financial institutions would be granted an exemption from the reserving and reporting requirements of the Monetary Control Act of 1980. The Federal Reserve Board has by regulation, repeatedly afforded small institutions a similar exemption. H.R. 6222 would simply make law what the Federal Reserve has done by regulation.

To explain the rationale behind the Federal Reserve's de facto exemption policy, let me remind this Subcommittee that at present, the nation's more than 20,000 credit unions hold somewhat less than 5% of the total deposits in all financial institutions. The percentage of reservable deposits in credit unions is infinitesimal. CUNA feels the case for the exemption in 1980 was quite strong and remains so today based on our experience with the Monetary Control Act and Regulation D (Reserves).

THE LEVEL PLAYING FIELD

Congress, in adopting the Monetary Control Act of 1980, established a "level playing field" at the insistence of the bankers and others. Although the Act gave the Federal Reserve Board the authority to vary the reporting requirements among different depository institutions, the Board was not authorized to exempt permanently any class of financial institution from the reserving requirements. Therefore, all financial institutions may be required

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to report to the Federal Reserve Board and will possibly be required to hold reserves. However, at the time "universal" reserve coverage (P.L. 96-221) was being debated money market mutual funds had just begun their meteoric growth and were not even considered a financial intermediary capable of attracting billions of dollars of potentially reservable deposits.

The "level playing field" argument advanced by the opponents of this bill should only require reporting and reserving by those institutions that have a demonstrated impact on the Federal Reserve Board's ability to conduct monetary policy. Rather than a universal reserving and reporting requirement, H.R. 6222 would establish a balance between the need for the Federal Reserve Board to have information regarding reservable accounts and the burden of providing that information. In place of the present regulatory exemption's straight asset test, any financial institution would be eligible for the bill's exemption on the basis of the dollar amount of their reservable accounts. Even the nation's largest financial institutions would achieve some relief in their reserve obligation as a result of H.R. 6222, as the 3% reserve on the first $2 million ($60,000 in sterile reserves) is made available for loans and other anti-recessionary activities.

NEED FOR H.R. 6222

During the implementation of the Monetary Control Act, it became apparent that the Board would have great difficulty managing the reports forwarded to it by all 40,000 financial institutions in the United States. In late 1980, the Federal Reserve Board determined that it would not require reports from small financial institutions that would be unlikely to ever hold reserves with the Federal Reserve. The exemption adopted by the Board was requested by CUNA

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and others and endorsed by the Presidents of all 12 Federal Reserve Banks in October 1980. The exemption leaves 99.56 percent of the total deposits in financial institutions subject to reserves. The existing exemption, according to Board figures, relieves 16,768 credit unions with deposits of less than $2 million from the reporting requirements of the Act and Regulation D.

The majority of the nation's credit unions are relatively small institutions. In the foreseeable future, they will not have accounts (share draft or non-personal time) that are subject to reserves. Therefore, the only impact of Regulation D on most credit unions, including those with transaction accounts, has been the periodic need to fill out the report on reservable accounts.

Reporting under Regulation D and the Monetary Control Act is not a simple matter. The regulation deals with accounts at the most sophisticated financial institution as well as those at a typical credit unions. As a result, the vast majority of the regulation is inapplicable to most credit unions. The instruction book for preparation of the periodic reports (Form FR 2900, Report of Transaction Accounts, Other Deposits and Vault Cash) is 56 pages long for credit unions (reduced from 74 pages for banks). Thus, without the exemption, credit unions that will never hold reserves in a Federal Reserve bank may be required to periodically file a report which complies with the complex instructions necessary to implement the reporting requirements for substantially larger institutions.

Thousands of credit unions are staffed by volunteers, or one or two paid employees. Imagine asking the manager of the $600,000 Catholic University

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Federal Credit Union--who is its only paid employee--to periodically fill out a report to the Federal Reserve which would require the mastering of the 54-page instruction book on Regulation D, and establishment of sophisticated recordkeeping for the credit union. The Federal Reserve Board will be unlikely to gain any reserves out of the credit union, and the credit union's 751 members will lose the services of their one employee for the period of time it takes him to learn the regulation and, each period, file the report. It should be clear that this exercise creates a paperwork burden both for the Federal Reserve Board, which must process the reports in a timely fashion, and for small financial institutions that already encounter significant problems coping with the bundle of federal regulations that apply to them.

IMPACT OF H.R. 6222 ON CREDIT UNIONS

The present Federal Reserve Board exemption concentrates on the deposits in the financial institution when determining whether or not the exemption applies. While this method is extremely easy for financial institutions to apply, it ultimately results in institutions reporting that have no reserve obligations. For instance, we were able to determine that, as of June 1981, 2,752 credit unions with assets of less than $15 million but more than $2 million reported on a quarterly basis. None, however, held any reserves with the Federal Reserve System. It is obvious that those credit unions are filling out periodic reports involving complex computations, difficult recordkeeping, and the interpretation of a 54-page set of instructions for a 1-page form without any increase in the reserve base of the Federal Reserve System.

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H.R. 6227 would replace the Federal Reserve's asset test with a test based on reservable accounts. Under the bill, up to $2 million in reservable accounts at any financial institution would be subject to exclusion. This approach would mean that nearly 79% of all credit unions (16,768) with less than $2 million in deposits would not have to grapple with the 54 page simplified credit union instructions for filling out the periodic report. In addition, those institutions that are larger could still be exempt from Regulation D's reporting and reserving requirements so long as their reservable accounts did not exceed $2 million. As indicated above, in 1981, 2,752 credit unions with more than $2 million in assets but less than $15 million in assets held no reserves in the Federal Reserve although they did have to report quarterly. The legislation would, in all probability, exempt most of these 2,752 institutions from the reporting requirements of Regulation D and the Monetary Control Act.

We would suggest the following language (in subsection 11(a)(2) of the Federal Reserve Act) to ensure that reports are not required, as a rule, from institutions that are otherwise exempt: "Consistent with this purpose, the Board shall not, except in unusual circumstances, require reports from those depository institutions exempted from reserve requirements under subsection 19(b)(11) of this Act."

Share drafts constitute the largest single category of accounts at credit unions that would be subject to reserves. Most credit unions do not have nonpersonal time deposits and other non-share draft reservable accounts. As of December 31, 1981, 5,530 credit unions had more than $2 million in assets although only 3,000 offered share drafts. Our data indicates that adoption of

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H.R. 6222 will result in coverage of about 430 credit unions (2% of the total of all credit unions) with more than $2 million in transaction-type accounts. This reduction of more than 5,000 reporting credit unions will not have a measurable impact on the deposits in the reserve base available to the Federal Reserve Board for the conduct of monetary policy.

Under the existing rule, 97% of the dollars in credit union share draft accounts ($3.6 billion) are covered by Regulation D. H.R. 6222 would result in a coverage of 64% of the total dollars in share drafts accounts in credit unions. (See Table 1) We further estimate that of the $3.6 billion in share drafts in credit unions, $2.3 billion will continue to remain subject to the reserve and reporting requirements of Regulation D. Further, the $1.3 billion that has been excluded from coverage of Regulation D is subject to inclusion upon growth of credit unions and their share draft programs.

In summary, H.R. 6222 will substantially decrease the number of credit unions required to report under Regulation D but will not, in our opinion, change the Board's ability to conduct monetary policy through the use of reserves.

CONCLUSION

I would not fully represent the nation's more than 20,000 credit unions if I did not note again that money market mutual funds, with more than three times the asset-base of credit unions are not covered by the Monetary Control Act. Credit unions must inevitably question why they should bear a burden of reporting and reserving, regardless of size, while these giant competitors (MMMFs) for consumer deposits escape coverage entirely. The charter of the entity providing transaction account services should not be the determining factor in whether or not there is an impact on monetary policy. The present marketplace suggests that either reserves be imposed on all institutions with transaction account capability or that credit unions should be released from the requirements of the Monetary Control Act of 1980. At the very least, however, H.R. 6222 marks an important first step in resolving the inconsistent reserve treatment of institutions by the Monetary Control Act. Thus for this reason, CUNA supports adoption of H.R. 6222 as necessary support for the Federal Reserve Board's authority to exempt small asset-sized credit unions from the reserve and reporting requirements of the Act and Regulation D.

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TABLE 1

Reservable Deposits in All Credit Unions, December 1981

	Credit Unions		Assets		Share Draft Balances	
	No.	%	$ Billion	%	$ Billion	%
OLD RULE ($2 million in assets)						
Included*	5,530 (3,000)	26% (14.3%)	$66.5 ($50.6)	89% (67%)	$3.5 ($3.5)	97% (97%)
Excluded	15,470	74%	$ 8.5	11%	$0.1	3%
PROPOSED RULE ($2 million in share drafts)						
Included	430	2%	$25.9	34.5%	$2.3	64%
Excluded	20,570	98%	$49.1	65.5%	$1.3	36%

*5,530 credit unions had at least $2 million in assets, but, of these, only 3,000 offered share draft accounts.

Chairman FAUNTROY. Thank you for that suggestion. The committee will take it under advisement.

We will now hear from our last witness, Mr. Lamar Brantley, staff vice president of the U.S. League of Savings Associations.

STATEMENT OF LAMAR BRANTLEY, STAFF VICE PRESIDENT, U.S. LEAGUE OF SAVINGS ASSOCIATIONS

Mr. BRANTLEY. I am pleased to provide the U.S. League of Savings Associations views on H.R. 6222.

I wish to commend you for your concern over the ability of financial institutions, particularly the smaller ones, to comply with the reporting and reserve requirements of the Monetary Control Act. H.R. 6222 is a laudable effort to recognize the balance and legitimate needs of monetary policy with the circumstances of the financial institutions that must comply. This need for balance is particularly important for savings and loan associations at a time when earnings are severely depressed and any loss of productivity or income is keenly felt. At present, the high cost of savings, at over 11 percent, and the yield on our mortgages, at less than 10 percent, has produced a negative spread of over 130 basis points for our institutions.

The U.S. League of Savings Associations supports the additional exemptions specified in section 2 of H.R. 6222. While we find the $2 million exemption level acceptable, we urge the subcommittee to consider a somewhat higher exemption. We believe that a $5 million exemption would be reasonable and that it would not impair in any significant way the Federal Reserve's monetary policy. Referring to the response of Vice Chairman Martin and Congressman Weber's question, it was pointed out it would only be a reduction of one-tenth of 1 percent in the level of reserve if the $2 million level is selected.

We would point out, if you go to the $5 million level, that would only result in a reduction of two-tenths of 1 percent.

So it is still a fairly insignificant amount of reduction in reserve requirements. We also suggest that the subcommittee consider the reporting requirements associated with compliance with the Monetary Control Act and regulation D.

As we understand H.R. 6222, it does not provide for any relief from reporting requirements. We strongly feel that for smaller institutions, reporting relief is almost as important as relief from meeting the reserve requirements. If possible, no report at all from small institutions would be desirable as is the current Federal Reserve policy for financial institutions with less than $2 million in deposits. Alternatively, an annual report would be a meaningful improvement over the weekly or quarterly requirements currently in place. We raise this issue because the cost of compliance is significant. A U.S. League of Savings Association's survey of 40 associations conducted earlier this year showed that labor costs alone amounted to an estimated $6,500,000 annually for the approximately 3,500 savings associations that are required to submit weekly reports. In addition to that, one of the large computer service bureaus that serves a lot of savings and loan associations charge the associations $1,200 a year just to provide the reserve reporting information necessary to comply.

It is also important to keep in mind that there are a large number of small savings associations—just as there are small credit unions whose influence on monetary policy, even in the aggregate, is slight. At the end of 1980, 54 percent of the number of savings associations—2,476—under $50 million in assets held only 8.3 percent of the assets—$52 billion—of the savings and loan business. This, we think, argues for setting a policy that exempts most, if not all, of these smaller savings associations. I apologize that the figures were only year-end 1980 figures. As you know, there has been considerable shrinkage in the number of savings and loan associations in recent months.

We urge the subcommittee, therefore, to incorporate in H.R. 6222 some form of relief for smaller financial institutions from the burdens of weekly or quarterly reporting, in addition to the exemptions from reserve requirements already proposed.

Now, let me turn briefly to the issue of money market mutual funds. Money market mutual funds continue to pose a threat to financial institutions. Their spectacular growth from $10 billion in 1978 to $50 billion a year later to $200 billion today—raises important questions about their free-wheeling operations. Their remarkable success is due to the fact that while they are competing head-to-head with depository institutions for household savings, they are not subject to the restrictions under which depository institutions are required to operate. Of particular importance to this subcommittee's deliberations, the $200 billion money market fund business is not subject to reserve requirements. The Monetary Control Act imposed "universal" reserve requirements within the Federal Reserve System on all regulated depositories. Certainly the reserves pattern is hardly universal or equitable when an intermediary the size of the money market funds remains outside.

In conclusion, we are heartened by the efforts of this subcommittee to address the issue of improving the effectiveness of the Monetary Control Act. It is important that the Federal Reserve have the necessary tools for the efficient conduct of monetary policy, but it is equally important that a balance be sought in connection with the burdens that information-gathering and reserve requirements impose on the financial community.

The U.S. League of Savings Associations appreciates the opportunity to submit these remarks and, if I can supply any additional information regarding these matters, please feel free to let me know.

[Mr. Brantley's prepared statement, on behalf of the U.S. League of Savings Associations, follows:]

Testimony of the

United States League of Savings Associations

for the Subcommittee on Domestic Monetary Policy

on the Reserve Requirements Act of 1982

H.R. 6222

June 16, 1982

My name is Lamar Brantley. I am a Staff Vice President of the United States League of Savings Associations*. I am pleased to provide the League's views on H.R. 6222, the Reserve Requirements Act of 1982.

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*The U.S. League of Savings Associations has a membership of 4,000 savings and loan associations representing over 99% of the assets of the $625 billion savings and loan business. League membership includes all types of associations -- Federal and state-chartered, stock and mutual. The principal officers are: Roy Green, Chairman, Jacksonville, FL; Leonard Shane, Vice Chairman, Huntington Beach, CA; William B. O'Connell, President, Chicago, IL; Arthur Edgeworth, Director, Washington Operations; Glen Troop, Legislative Director; and Phil Gasteyer, Associate Director, Washington Operations. League headquarters are at 111 East Wacker Drive, Chicago, IL 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, DC 20006. Telephone: (202) 637-8900.

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I wish to commend Congressman Fauntroy for his concern over the ability of financial institutions--particularly smaller ones--to comply with the reporting and reserve requirements of the Monetary Control Act of 1980.

H.R. 6222 is a laudable effort to recognize and balance the legitimate needs of monetary policy with the circumstances of the financial institutions that must comply. This need for balance is particularly important for savings and loan associations at a time when earnings are severely depressed and any loss of productivity or income is keenly felt.

Overall, the U.S. League can report that the implementation by the Federal Reserve Board of the Monetary Control Act of 1980 has gone smoothly and in general it has caused few problems for our members. The provisions of the Act are extensive and have imposed substantial new responsibilities on both the Federal Reserve Board and the financial institutions that for the first time were brought under its control. Overall, we think all parties have acted commendably in responding to this challenge.

That is not to say, however, that some fine-tuning is not needed and it is in that spirit that we support Congressman Fauntroy's effort.

The additional exemptions proposed in H.R. 6222 will be extremely valuable to all of our institutions -- and especially our smaller member associations -- in reducing the costs associated with holding sterile reserves. The formula providing for future upward adjustment of the reserves' threshhold is also a useful statutory change.

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We recommend that consideration be given, as well, to substantially reducing the reporting requirements for smaller institutions under Section 11(a) of the Federal Reserve Act. This would not significantly impact on the management of monetary policy. Yet, it would provide needed help to the severely strained savings and loan business and to other financial institutions that are experiencing difficulties in these times of extraordinarily high interest rates.

We also wish to take this opportunity to urge that consideration be given to including for reserve requirement purposes investments in money market mutual funds. These funds have now passed the $200 billion barrier and continue to pose a significant threat to the regulated institutions competing in the financial services marketplace.

Finally, we wish to bring to your attention another problem that has emerged with the implementation of the Monetary Control Act. This involves the definition of transferable certificates issued by financial institutions to customers.

Reserve Requirement Relief for Smaller Financial Institutions

The League supports the additional exemptions specified in Section 2 of H.R. 6222. It is imperative that recognition be given to the concerns of smaller financial institutions and the imposition of zero per centum reserve

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ratio on a specified amount of reservable liabilities is a reasonable step toward meeting these needs.

While we find acceptable the $2,000,000 exemption level, as adjusted by subparagraph (3), we urge the subcommittee to consider a somewhat higher exemption. We believe that a $5,000,000 exemption would be reasonable and that it would not impair in any significant way the Federal Reserve's monetary policy control efforts.

Setting a reasonable exemption level will provide meaningful relief to savings associations by reducing the amount of nonearning assets they must hold at a time when they are facing the most severe economic pressures.

We also suggest that the subcommittee consider the reporting requirements associated with compliance with the Monetary Control Act and Regulation D. At present, only financial institutions with deposits (of all types) of less than $2,000,000 are exempt from reporting responsibilities. Some additional relief is granted to financial institutions with deposits (of all types) of less than $15,000,000 in that they are permitted to file quarterly rather than weekly reports.

As we understand H.R. 6222, it does not provide for any relief from reporting requirements for institutions with less than $2,000,000 in the specified reservable deposit categories to which the zero per centum ratio will apply. We strongly feel that for smaller institutions, reporting relief is almost as important as relief from meeting the reserve requirements.

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Congress recognized this concern when it passed the Monetary Control Act by including in the House Banking Committee Report a clear statement, "that data collected from nonmember banks and thrift institutions will be collected in such a way as to ensure that undue reporting burdens are avoided." Moreover, Congress stipulated in Section 102 of the Act that reports are required only for institutions whose reserve requirements exceed zero.

It seems entirely consistent with Congressional intent to consider incorporating in H.R. 6222 the notion that financial institutions which have less reservable liabilities than the specified exemption amount be relieved of weekly reporting requirements. If possible, no report at all would be desirable. That is the current Federal Reserve policy for financial institutions with less than $2,000,000 in total deposits. Alternatively, an annual report would be a meaningful improvement over the weekly or quarterly requirements of Regulation D.

We raise this issue because the cost of compliance is significant. A U.S. League survey of 40 associations conducted earlier this year showed that an average savings association spent over 3.5 hours per week each in complying with Regulation D. These labor costs alone amount to an estimated $6,500,000 annually for the approximately 3,500 savings associations that are required to submit weekly reports.

Added to the cost of compliance, some savings associations face recurring charges from their data processing service bureau to provide Regulation D

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information. One service bureau with several hundred clients charges $100 per month for a Regulation D special report. Twelve hundred dollars a year to a small association is a significant cost.

It is also important to keep in mind that there are a large number of small savings associations--institutions whose influence on monetary policy even in the aggregate is slight. At the end of 1980, 54% of the number of savings associations (2,476) had assets of $50 million or less, and these institutions held only 8.3% of the total assets of the business. (A summary breakdown of savings associations by asset size is attached.) The percentage of total deposits in these smaller institutions compared with industry-wide deposit totals is comparable.

Even more to the point, at the end of May, NOW accounts -- the major transaction account category available from S&Ls -- comprised but 1.8% of total savings association deposit balances. Though precise data is unavailable on nonpersonal time deposits, our understanding is that an even smaller percentage would apply. At most, three percent of deposits come from the reservable categories. This would mean that roughly $1.5 billion of the money supply would constitute transaction and nonpersonal time deposits of savings and loan associations with $50 million in assets or less. Considering that the M-1 number in the latest reporting week is over $450 billion, and the M-2 number is over $1.89 trillion, that is indeed an insignificant portion.

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Furthermore, we are confident that the totals for these kinds of deposits at smaller institutions remain quite stable. Thus, their inclusion in the weekly and quarterly data collection is very unlikely to contribute to significant movements in the M-1 or M-2 totals.

We urge the subcommittee, therefore, to incorporate in H.R. 6222 some form of relief for smaller financial institutions from the burdens of weekly or quarterly reporting to the Federal Reserve Bank in addition to the exemptions from reserve requirements already proposed.

Money Market Mutual Funds Should Be Subject to Reserve Requirements

Money market mutual funds continue to pose a threat to financial institutions. Certainly their spectacular growth from $10 billion in 1978 to $50 billion a year later to $200 billion today--raises important questions about their free-wheeling operations.

Mutual funds and depository institutions (banks, savings and loan associations and credit unions) have co-existed for decades without any disruption of the financial system. Both competed for funds from the public, but the lines between one type of investment and the other were clearly drawn.

Money market mutual funds, however, are different. Although structured like mutual funds, to a large degree they act like depository institutions--and certainly for all practical purposes they are so regarded by a growing segment of the public.

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Legislation (H.R. 2591 or H.R. 6223) introduced by you, Mr. Chairman -- or H.R. 2980 introduced by Mr. Carman, a Member of the full Banking Committee, would correct the major loophole in the "universal" reserves system and greatly enhance the conduct of our nation's monetary policy.

From a place where stock market investors "parked" money taken out of the market, the funds have become aggressive competitors for the household savings of individuals and families. By promoting their services in general circulation newspapers and magazines and on radio and television, they have attracted huge sums from the depository institutions system by emphasizing the higher rates they can pay.

Their remarkable success is due to the fact that while they are competing head-to-head with depository institutions for household savings, they are not subject to the restrictions under which depository institutions are required to operate -- in the case of our institutions the high cost of savings (11.13%) and the yield on our mortgages (9.88%) has produced a negative spread of over 130 basis points.

The Monetary Control Act imposed "universal" reserve requirements within the Federal Reserve System on all regulated depositories. Certainly the reserves pattern is hardly universal or equitable when an intermediary the size of the money market funds remains outside.

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The arguments used in the past to impose reserves on thrift institution transaction and nonpersonal savings accounts apply at least as well to the balances of the money market funds and we believe consideration should be given to this possiblity.

Additional Matters Regarding Reserve Requirements

On March 24, 1982, the Federal Home Loan Bank Board adopted a final rule expanding the authority of savings institutions to issue negotiable accounts.

Previously, the authority to issue negotiable certificates was limited to "marketable" certificates of deposit and Eurodollar certificates issued by federal associations (12 CFR 545.1-4, 545.24-4) and for certificate accounts specifically approved by the Board and marketable certificates issued by other insured institutions (12 CFR 563.3-2, 563.3-3). Such certificates had to be in minimum denominations of $100,000 or more.

The value of the negotiable certificate is to provide a savings association customer with an alternative to withdrawal prior to the maturity of a certificate and the imposition of a penalty for early withdrawal. It also provides the consumer with increased liquidity for certificate accounts and the opportunity to realize capital gains if interest rates decline subsequent to the purchase of the certificate.

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The Bank Board, in its March 24 action, amended applicable regulations (545.1-1, 545.1-3, and 563.3-1) to permit institutions to issue certificate accounts evidenced by negotiable instruments regardless of denomination. It also observed, as have we, that such negotiable certificates with an original maturity of less than 3-1/2 years would be subject to reserve requirements under Regulation D, currently at a rate of 3%.

The 3% reserve requirement, however, will detract from the appeal of a negotiable certificate since financial institutions will not be able to pay competitive rates after making allowance for the reserve requirement.

The Monetary Control Act of 1980 defines a nonpersonal time deposit as "a transferable time deposit or account or a time deposit or account representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor who is not a natural person" (emphasis added). Since a negotiable certificate would be transferable, it seems clear that it would fall within the definition of nonpersonal time deposit regardless of who purchased it.

The Federal Reserve concluded that the provision of the act that defines transferable time deposits as nonpersonal time deposits was intended to prevent the evasion of reserve requirements through the transfer of time deposits from individuals to organizations or governmental units.

While it is true that a negotiable certificate has the potential for being used to evade reserve requirements, we find it extremely unlikely that

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financial institutions would willfully engage in such a practice. Moreover, Section 204.7(b) of Regulation D provides the Federal Reserve Board and other relevant supervisory authorities with the power to assess civil money penalties and to undertake cease and desist proceedings in the event of violations of the regulations.

We encourage the subcommittee to consider different treatment for negotiable certificates issued to natural persons. This more lenient treatment will encourage the use of negotiable certificates and help achieve the consumer benefits envisioned when they were authorized.

Conclusion

We are heartened by the efforts of this subcommittee to address the issue of improving the effectiveness of the Monetary Control Act. It is important that the Federal Reserve have the necessary tools for the efficient conduct of monetary policy but it is equally important that a balance be sought in connection with the burdens that information gathering and reserve requirements impose on the financial community.

The League appreciates the opportunity to submit these remarks and if we can supply any additional information regarding these matters please feel free to let us know.

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ATTACHMENT

DISTRIBUTION OF SAVINGS ASSOCIATIONS BY ASSET SIZE

December 31, 1980

Asset Size (Millions)	Number of Associations	Percentage of Total	Assets (Millions)	Percentage of Total
Under $1	225	4.9%	$ 100	
$ 1 and under $ 5	280	6.1	808	0.1%
$ 5 and under $ 10	285	6.2	2,234	0.4
$ 10 and under $ 25	788	17.1	14,338	2.3
$ 25 and under $ 50	898	19.5	34,698	5.5
$ 50 and under $ 100	891	19.3	67,019	10.6
$ 100 and under $ 150	396	8.6	50,250	8.0
$ 150 and under $ 250	359	7.8	71,004	11.3
$ 250 and under $ 500	270	5.9	94,242	15.0
$ 500 and under $1,000	124	2.7	84,604	13.4
$1,000 and over	97	2.1	210,532	33.4
Total	4,613	100.0%	$629,829	100.0%

Note: Components may not add to totals due to rounding.

Less than 0.05%.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

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Chairman FAUNTROY. I thank you, Mr. Brantley, Mr. Hutchinson, Mr. Boatwright, and Mr. Barr.

Let me begin with a question for you, Mr. Brantley. I know that the U.S League of Savings Associations has been particularly interested in seeking some relief from certain reporting requirements. As pointed out earlier, we have not incorporated such provisions in this bill, but depending upon the nature of the reporting requirement it might be possible to do so. Would you describe what kind of reports you want relief from making, the cost of those reports and their importance, as you understand it, for the Fed?

Mr. BRANTLEY. Yes, I would be happy to answer that on behalf of the savings and loan associations, Mr. Chairman.

There are roughly 3,500 savings and loan associations today that have to prepare a weekly report and submit it to the Federal Reserve. This requires that they have their computer data centers provide them with information that they can use in completing that report. In addition, they have to spend some time in getting that data so it is acceptable to the Federal Reserve. As I pointed out in my earlier testimony we found that savings associations are spending on the average about 3½ hours a week to just prepare this report. The majority of the associations, after completing the report, do not have any reserve requirements and do not actually have to post reserves.

The cost is significant in terms of time expended, not to mention the loss of earnings on the reserves that do have to be put up. We think the reporting issue is a significant one. We certainly hope you include that in H.R. 6222.

Chairman FAUNTROY. What about the importance to the Fed? What is your assessment of that?

Mr. BRANTLEY. As we look at the number of institutions that we are thinking should be exempt from this, which would roughly be in the neighborhood of 2,000 or so savings associations, they represent such a small portion of not only the deposits of our business but of the money supply itself, that it just makes no sense to us to continue to require these institutions to have to submit weekly or quarterly reports.

Chairman FAUNTROY. Mr. Barr?

Mr. BARR. I would just like to associate myself with Mr. Brantley's remarks. This is the report, FR 2900. It was approved by the Federal Reserve Board as of August of 1980. It has 17 different line items that the institution has to prepare. This is the book of instructions that would go out to a credit union—instructions for the preparation of form FR 2900, "Reports of Transaction Accounts, Other Deposits and Vault Cash."

The instruction book is 54 pages long, and I submit that the average substantial financial institution would have no problem complying with this because they could assign this responsibility to someone on their staff. The average credit union, however, either has one or two full-time employees, as we point out in our full statement. The burden that falls on the small institution in completing this report is substantial. If it takes just 3½ hours, it takes away a half a day of productivity of one person working in a small credit union. This individual who, you know, is the chief teller, the

bookkeeper, the loan officer, the collection officer, and probably sweeps the place out at night.

Reporting does represent a substantial burden on those small institutions and as Mr. Brantley pointed out, the aggregate benefit to the Federal Reserve has been slight. There are only 150 out of some 22,000 credit unions, by our calculations, that have any reserves at all with the Federal Reserve under the existing requirement.

Chairman FAUNTROY. Without objection, both the form and the instructions will be included in the record at this point.

Mr. BARR. Certainly, I would be glad to.

[The material referred to by Chairman Fauntroy follows:]

Board of Governors of the Federal Reserve System

To Holders of the Instructions Booklet Entitled

Summary Instructions for the Preparation of the

Report of Transaction Accounts, Other Deposits and Vault Cash (Reporting Form FR 2900)

FOR USE BY ALL DEPOSITORY INSTITUTIONS

Revision # 2 Date April 1982

Enclosed is the second revision to the Summary Instructions for the Preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). These revised pages reflect changes neccessiated by the Board's recent action to continue the deferral of reporting and reserve maintenance requirements for certain small depository institutions and to reduce from 4 years to 3-1/2 years the minimum maturity for which a zero percent reserve ratio is imposed on nonpersonal time deposits. Each revised page is labelled "Revision #2--April 1982." Please insert these pages in your booklet and discard the earlier version of such pages.

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Record of Changes

FR 2900

SUMMARY INSTRUCTIONS FOR PREPARATION OF THE REPORT OF TRANSACTION ACCOUNTS, OTHER DEPOSITS AND VAULT CASH
For Use by All Depository Institutions

Revision Number	Date of Change	Pages Affected
1	April 1981	(New booklet issued)
2	April 1982	2,4,6,8, and 11

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Summary Instructions for the Preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900)

Under the Monetary Control Act of 1980, a depository institution that has transaction accounts or nonpersonal time deposits is required to file with the Federal Reserve System a Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). These summary instructions provide a general description of the items to be reported and focus on those transactions that are more common to smaller depository institutions. More detailed instructions, including a comprehensive discussion of the items to be reported, a discussion of certain special topics, and a glossary that defines important terms, are provided in the Detailed Instructions for the Preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash that is available from the Federal Reserve Banks. 1/

This report is used for the calculation of Federal required reserves and for construction of the monetary aggregates used by the Federal Reserve System in the formulation and conduct of monetary policy. Efficient management of required reserves begins with the accurate and timely preparation of this report. Rules governing the reserve requirement provisions of the Monetary Control Act are contained in the Federal Reserve's Regulation D, "Reserve Requirements of Depository Institutions," which is available from the Federal Reserve Banks.

GENERAL INSTRUCTIONS

Who must report. The following depository institutions that have transaction accounts or nonpersonal time deposits must submit the Report of Transaction Accounts, Other Deposits and Vault Cash:

1. Federally-insured commercial or industrial banks (or any bank that is eligible to apply for FDIC insurance);
2. mutual or stock savings banks;
3. building, savings and loan, or homestead associations and cooperative banks that are members of a Federal Home Loan Bank or that are insured by the FSLIC (or any institution that is eligible to apply for FSLIC insurance);
4. credit unions that are insured by the NCUA Board (or any credit union that is eligible to apply for such insurance);

1/ Every depository institution that obtains funds from a non-U.S. source or that has non-U.S. offices (excluding those located on U.S. military facilities outside the U.S.) must also file with the Federal Reserve a Report of Certain Eurocurrency Transactions. Forms and instructions for this report may be obtained from the Federal Reserve Banks.

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5. Edge Act and Agreement corporations;

6. U.S. branches and agencies of foreign banks with consolidated worldwide bank assets in excess of $1 billion; and

7. other U.S. branches of foreign banks that are eligible to apply for FDIC insurance.

Frequency of report. Commercial or industrial banks, mutual or stock savings banks, savings and loan associations, and credit unions with total deposits of less than $15 million as of December 31, 1979, may file one weekly report each calendar quarter as specified by the Federal Reserve Bank. All such institutions with total deposits of $15 million or more, as well as all U.S. branches and agencies of foreign banks, and all Edge Act and Agreement corporations, must file a report each week. 1/

How to report. The reporting (or computation) period is the seven-day period that begins on Thursday and ends the following Wednesday. The report shall reflect amounts outstanding as of the close of business each day of the reporting period. For any day on which the reporting institution was closed, the institution should report the closing balances as of the preceding day. Amounts reported should be rounded and reported to the nearest thousand U.S. dollars.

Banks, savings and loan associations, and credit unions shall prepare and file a report that consolidates the head office and all branches (and operations subsidiaries or service corporations, if applicable) located in the 50 states of the United States or the District of Columbia. U.S. branches and agencies of foreign banks and Edge Act and Agreement corporations shall prepare and file a report that combines all offices located within the same state and within the same Federal Reserve District.

Negative or overdrawn balances in any account should be regarded as zero when computing deposit totals. Similarly, balances "due from" or "due to" other depository institutions must not be regarded as negative when such accounts are overdrawn; rather, these accounts should be regarded as having a zero balance when computing deposit totals.

With the exception of Item 16 "All Time Deposits in Denominations of $100,000 or more", which includes large time deposits also reported in Items 13 and 14, deposits should be classified according to the instructions in this booklet or in the related Detailed Instructions booklet and reported in only a single item on this report. Such single-category reporting is essential in order to avoid the imposition of unnecessary reserve requirements and to provide accurate monetary statistics.

1/ The Federal Reserve Board has deferred deposit reporting and reserve maintenance requirements for those depository institutions other than Edge Act and Agreement corporations, U.S. branches and agencies of foreign banks and member commercial banks that had total deposits of less than $2 million as of December 31, 1979 and less than $15 million as of December 31, 1980 and December 31, 1981. Reporting and reserve maintenance for such institutions organized de novo since December 31, 1979 that had less than $15 million in total deposits as of December 31, 1980 and as of December 31, 1981 is also deferred. When total deposits of such institutions exceed $15 million after December 31, 1981, the institution must begin reporting and maintaining reserves on a quarterly basis. Such institutions organized de novo after November 18, 1981 may be required to begin reporting immediately, if they are experiencing above normal growth.

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DEFINITIONS

U.S./non-U.S. For purposes of this report, the term "United States" (or "U.S.") is defined as the 50 states of the United States and the District of Columbia. The terms "non-U.S." and "foreign" are defined as Puerto Rico, territories and possessions of the United States, and all countries other than the United States.

Deposits. The term "deposits" has a special meaning in Regulation D and in this report. Deposits include not only funds received by the depository institution for which credit has been or is obligated to be given to a deposit account maintained by the institution, but also certain other liabilities of the institution. Such liabilities arise from "primary obligations" that are issued or undertaken by the depository institution as a means of obtaining funds, and consist of: (1) promissory notes (including commercial paper, credit union certificates of indebtedness, and mortgage-backed bonds), acknowledgements of advance, and other similar obligations that are issued to "non-exempt entities" (as defined below); (2) repurchase agreements entered into with "nonexempt entities" on any asset other than an obligation of, or fully guaranteed as to principal and interest by, the U.S. Government or Federal agencies; and (3) due bills, regardless of to whom issued, that have not been collateralized within three business days from the date of issuance by a similar security. Except for due bills described above, primary obligations undertaken with "exempt entities" are not deposits under Regulation D. Note, however, that those liabilities which your institution books as deposits (or shares) are always deposits, regardless of the status of the depositor.

Many of the transactions giving rise to a deposit liability are described in the instructions for specific items to be reported. There are, however, many deposit liabilities, such as those arising from "primary obligations" described above, that are not discussed in detail in these summary instructions. For a thorough discussion of deposits and these types of transactions, please refer to the Detailed Instructions for the Preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash.

Exempt entities. The term "exempt entities" that is used in these instructions consists of U.S. offices of the following institutions:

1. U.S. commercial banks and trust companies and their operations subsidiaries;

2. U.S. branches or agencies of a bank organized under foreign (non-U.S.) law;

3. Edge Act and Agreement corporations;

4. industrial banks;

5. mutual and stock savings banks;

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6. building or savings and loan associations and homestead associations;

7. cooperative banks;

8. credit unions;

9. the U.S. Government and its agencies and instrumentalities, such as the Federal Reserve Banks, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, the Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortgage Association, National Credit Union Administration Central Liquidity Facility, Federal Financing Bank, Student Loan Marketing Association, and National Credit Union Share Insurance Fund;

10. Export-Import Bank of the U.S.;

11. Government Development Bank of Puerto Rico;

12. Minbanc Capital Corporation;

13. securities dealers, but only when the borrowing (a) has a maturity of one day, (b) is in immediately-available funds, and (c) is in connection with the clearance of securities;

14. the U.S. Treasury (Treasury Tax and Loan Account note balances); and

15. New York State investment companies (chartered under Article XII of the New York State Banking Code) that perform a banking business and are majority-owned by one or more non-U.S. banks.

16. Investment companies or trust whose entire beneficial interest is held exclusively by a depository institution.

Nonexempt entities. The term "nonexempt entities" includes any institution other than those listed above under "exempt entities."

Personal deposits. Personal savings and time deposits include nontransferable deposits in which the entire beneficial interest is held by a natural person (an individual or a sole proprietorship). For any such deposit issued on or after October 1, 1980, the document that evidences the account--whether in certificate, passbook, statement, contract, or book-entry form--must contain a statement indicating that the deposit is nontransferable; however, a deposit issued to and held by a natural person prior to October 1, 1980, regardless of its transferability, is also a personal deposit. Any deposit in which the entire beneficial interest is held by a natural person in an Individual Retirement Account or Keogh Plan Account, in a nontransferable time deposit account held by an employer as part of an unfunded deferred compensation plan established pursuant to subtitle D of the Revenue Act of 1978 (Pub. L No. 95-600, 92 Stat. 2763), in an escrow account, or in an account held by a trustee or other fiduciary is also a personal time deposit.

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Nonpersonal deposits. Nonpersonal savings and time deposits are defined to include deposits in which any beneficial interest is held by a depositor other than a natural person, or any deposit issued on or after October 1, 1980, that does not specifically state that it is nontransferable. A depositor other than a natural person includes a partnership, a governmental unit, and any corporation, even if owned solely by an individual.

Treatment of pass-through balances. A depository institution may satisfy reserve requirements by holding vault cash or by holding its required reserve balance at the Federal Reserve. A depository institution that is not a member of the Federal Reserve System, a U.S. branch or agency of a foreign bank, or an Edge Act or Agreement corporation ("respondent") is authorized to hold its required reserve balance at the Federal Reserve in one of two ways. The respondent may deposit its required reserve balance directly with the Federal Reserve Bank or Branch which serves the territory in which it is located. Alternatively, in accordance with procedures adopted by the Board, the respondent may elect to pass its required reserve balance through a "correspondent." The correspondent may be a Federal Home Loan Bank, the NCUA Central Liquidity Facility, a depository institution that holds a required reserve balance directly at a Federal Reserve Bank or Branch, or an institution that has been authorized by the Board to pass through required reserve balances. The correspondent must pass through these required reserve balances to the Federal Reserve Bank or Branch in the territory in which the main office of the nonmember respondent institution is located.

The correspondent institution shall exclude from this report all balances received from nonmember respondent institutions and subsequently passed through to the appropriate Federal Reserve Bank or Branch. A respondent institution shall exclude from this report all balances that the correspondent passes through to the Federal Reserve Bank or Branch on behalf of the respondent.

ITEM-BY-ITEM INSTRUCTIONS

Transaction Accounts (Items 1 through 7)

Transaction accounts include all demand deposits and all other accounts from which the depositor or account holder is permitted to make withdrawals by (1) negotiable or transferable instruments (such as checks, drafts, negotiable orders of withdrawal, or share drafts); (2) the use of a debit card; (3) telephone or preauthorized transfers to third parties or to another account, when more than three such transfers per month--defined as a calendar month, or any period approximating a month that is at least four weeks long, such as a statement cycle--are permitted; and (4) transfers to third parties through the use of an automated teller machine (ATM) or remote service unit (RSU). Transaction accounts are reported in Items 1 through 7 as defined below.

Demand deposits, to be reported in Items 1 through 3, are defined as deposits that are payable immediately on demand or issued in original maturities of less than 14 days, or that are payable with less than 14 days notice, or for which the depository institution does not reserve the right to require at least 14 days written notice of an intended withdrawal. For purposes of this report, demand deposits include, but are not limited to, (1) checking accounts (exclud-

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ing NOW or share draft accounts); (2) certified, officers', bank, tellers', and cashiers' checks drawn on the reporting institution; (3) unremitted funds from the sale of travelers' checks or money orders; (4) taxes, insurance premiums or other funds withheld from the salaries of employees of the reporting institution; (5) matured time deposits or credit union share certificates (unless the deposit agreement specifically provides for automatic renewal at maturity or for transfer of the funds to a savings or share account); (6) credit balances that meet the definition of demand deposits; (7) funds received or held in connection with letters of credit sold to customers; and (8) funds received or held in escrow or trust accounts that may be withdrawn on demand or within 14 days from the date of deposit.

Demand deposits also include those liabilities referred to as "primary obligations" that are described earlier under Definitions, and that are issued in original maturities of less than 14 days or payable with less than 14 days notice.

Item 1.a: Demand Deposits Due to Banks. Report in this item the balance of all demand deposits (excluding "primary obligations" other than due bills that are not collateralized within three business days as described earlier) that are due to U.S. offices of the following institutions located in the United States: (1) commercial banks (including private banks) or industrial banks, and trust companies conducting a commercial banking business; (2) U.S. branches and agencies of foreign banks; (3) Edge Act and Agreement corporations; (4) New York State investment companies (chartered under Article XII of the New York State Banking Code) that perform a banking business and that are majority-owned by one or more non-U.S. banks; and (5) banker's banks that are organized as commercial banks. All demand balances due to these institutions may be reported gross or net (on an institution-by-institution basis) of balances due from these institutions.

Also include in this item all demand balances due to non-U.S. offices of other U.S. banks, of other Edge Act and Agreement corporations, and of foreign banks. All demand balances due to these institutions must be reported gross.

Item 1.b: Demand Deposits Due to Other Depository Institutions. Report in this item the balance of all demand deposits (excluding "primary obligations" other than due bills that are not collateralized within three business days as described earlier) that are due to mutual or stock savings banks, including those that are bankers' banks; building or savings and loan associations, homestead associations, or cooperative banks, including those that are bankers' banks, and credit unions (including corporate central credit unions). All demand balances due to these institutions must be reported gross.

Item 2: U.S. Government Demand Deposits. Report in this item the balance of all demand deposits (excluding "primary obligations" other than due bills that are not collateralized within three business days as described earlier) that are subject to control or regulation by the U.S. Government, including U.S. Treasury Tax and Loan Accounts (such as Federal income tax payments, social security tax deposits, other Federal tax payments, and the proceeds from the sale of U.S. Savings Bonds); U.S. Treasury general accounts; U.S. Treasury compensating balance accounts; Postmaster's demand deposit accounts; and demand deposits of the Tennessee Valley Authority and disbursing officers of the Department of Defense and the Department of the Treasury.

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Exclude demand deposits due to U.S. Government agencies and instrumentalities and demand deposits due to state or local governments or their political subdivisions (reported in Item 3). Exclude from this item and from this report Treasury Tax and Loan Account note balances.

Item 3: Other Demand Deposits. Report in this item the balance of all demand deposits (excluding "primary obligations" other than due bills that are not collateralized within three business days except as described in the following paragraph) that are held for individuals, partnerships, and corporations; state and local governments and their political subdivisions; U.S. Government agencies and instrumentalities; foreign governments and international institutions; nondeposit or limited purpose trust companies; and trust departments of the reporting institution and of other institutions. This item should also include withheld state and local government taxes, insurance premiums and similar items; certified, officers', bank, tellers', and cashiers' checks; unremitted funds from the sale of travelers' checks and money orders; noninterest-bearing deposits subject to negotiable orders of withdrawal (NINOWS); and deposits subject to payment order of withdrawal (POWs).

Also include in this item those liabilities referred to as "primary obligations" that are described earlier under Definitions, and that are issued in original maturities of less than 14 days or payable with less than 14 days notice.

Item 4: ATS Accounts. Report in this item the balance of all savings deposits of individuals that are authorized for automatic transfer to demand deposit or other accounts pursuant to written agreement arranged in advance between the reporting institution and the depositor. A savings account from which more than three transfers could be made in a month to a checking, NOW, or share draft account to cover overdrafts shall be regarded as a transaction account and reported in this item. A month is defined as a calendar month, or any period approximating a month that is at least four weeks long, such as a statement cycle.

Item 5: Telephone or Preauthorized Transfer Accounts. Report in this item the balance of savings deposits, share accounts, or time deposits from which the depositor is permitted or authorized to make more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of preauthorized or telephone agreement, order, or instruction. An account that permits or authorizes more than three such withdrawals in a month is included in this item whether or not more than three such withdrawals actually are made. A month is defined as a calendar month, or any period approximating a month that is at least four weeks long, such as a statement cycle.

Also report in this item the balance of all savings deposits and time deposits (including share and share certificate accounts) from which payments may be made to third parties by means of a debit card, an automated teller machine, remote service unit, or other electronic device, regardless of the number of payments made.

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An account is not a transaction account merely by virtue of an arrangement that permits withdrawals for the purpose of repaying loans and associated expenses at the same reporting institution (as originator or servicer). In addition, an account is not a transaction account merely because withdrawals to be paid directly to the depositor can be effected by telephone or preauthorized order.

Exclude from this item those accounts that permit no more than three telephone or preauthorized transfers a month, and all demand deposits, ATS accounts, and NOW accounts, even if telephone or preauthorized transactions are permitted from such accounts.

Item 6: NOW Accounts/Share Drafts. Report in this item the balance of all interest-bearing negotiable order of withdrawal (NOW) accounts and all share draft accounts.

Item 7: Total Transaction Accounts. Report in this item the sum of Items 1.a, 1.b, 2, 3, 4, 5, and 6.

Deductions (Items 8 and 9)

Item 8: Demand Balances Due From Depository Institutions in the U.S. Report in this item the balance of all deposits (excluding "primary obligations" other than due bills that are not collateralized within three business days as described earlier) subject to immediate withdrawal that are due from U.S. offices of the following institutions located in the U.S.: (1) commercial or industrial banks and trust companies conducting a commercial banking business; (2) Edge Act and Agreement corporations; (3) U.S. branches and agencies of foreign (non-U.S.) banks; (4) mutual or stock savings banks; (5) credit unions; (6) building or savings and loan associations, homestead associations, or cooperative banks; and (7) all depository institutions that are bankers' banks as defined in 12 CFR §204.121.

Exclude from this item all balances due from Federal Reserve Banks, including (1) your institution's reserve balances held directly with the Federal Reserve; (2) your institution's reserve balances that were passed through to the Federal Reserve by a correspondent; (3) reserve balances of another institution for which your institution is serving as pass-through agent (correspondent) and that were passed through by your institution to the Federal Reserve; and (4) your institution's clearing balances maintained at a Federal Reserve Bank (see the paragraph above under Definitions on "Treatment of pass-through balances").

Also exclude (1) all balances due from any non-U.S. office of a U.S. depository institution; any non-U.S. office of a foreign bank; trust companies that do not conduct a commercial banking business; New York State investment companies (chartered under Article XII of the New York State Banking Code) that perform a banking business and that are majority-owned by one or more non-U.S. banks; private banks; Federal Home Loan Banks; and National Credit Union Administration Central Liquidity Facility; (2) balances due from other depository institutions that are pledged by your institution; (3) time and savings deposit balances held at other depository institutions; (4) trust funds deposited in other depository institutions by your institution's trust department; and (5) cash items in process of collection.

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Item 9: Cash Items in Process of Collection. Report in this item the balance of all cash items in process of collection, including:

1. Checks or share drafts in the process of collection, drawn on a bank or other depository institution, that are payable immediately upon presentation in the United States, including checks or drafts forwarded to a Federal Reserve Bank in process of collection and checks or drafts on hand that will be presented for payment or forwarded for collection on the following business day. If the reporting institution is given immediate credit for checks or drafts deposited with its correspondent, report such checks or drafts as "due from" balances in Item 8.

2. Government checks drawn on the Treasury of the United States that are in the process of collection.

3. Such other items in the process of collection that are payable immediately upon presentation in the United States and that are customarily cleared or collected by depository institutions as cash items, including (a) drafts payable through another depository institution; (b) NOW or MINOW account drafts; (c) credit union share drafts; (d) redeemed bonds and coupons; (e) food coupons and certificates; (f) postal and other money orders, and traveler's checks; (g) amounts credited to deposit accounts in connection with automated payment arrangements where such credits are made one business day prior to the scheduled payment date to insure that funds are available on the payment date; (h) returned items and unposted debits; and (i) broker security drafts.

Exclude from cash items in process of collection any items handled as noncash collections, credit card sales slips and drafts, and debit slips.

Other Savings Deposits (Items 10 and 11)

Savings deposits (including credit union regular share accounts) are defined as deposits (including "primary obligations" as described earlier) that are not payable on a specified date or after a specified period of time from the date of deposit, but for which the depository institution expressly reserves the right to require at least 14 days written notice before an intended withdrawal.

Report in Item 10 or 11 the balance of all savings deposits not reported as transaction accounts in Items 1 through 6. Other savings deposits include: (1) savings deposits subject to telephone or preauthorized transfer where the depositor is not permitted or authorized to make more than three withdrawals per calendar month, or any period approximating a month that is at least four weeks long, for purposes of transferring funds to another account or for making a payment to a third party; (2) savings deposits in the form of IRA or Keogh Plan Accounts; (3) escrow and trust accounts that meet the criteria for savings deposits; (4) credit balances that meet the criteria for savings deposits; (5) matured time deposits if the contract calls for conversion to a savings deposit upon maturity; and (6) interest or dividends paid by crediting savings deposits accounts.

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All club accounts or special purpose accounts, such as Christmas, vacation, or similar accounts (whether in the form of savings or time deposits), should be reported as savings deposits by all Edge Act and Agreement corporations and by all commercial banks that were members of the Federal Reserve System (1) on September 1, 1980 or (2) on or after July 1, 1979 but that withdrew from membership prior to September 1, 1980. For all other depository institutions, only those club accounts in the form of savings deposits should be reported as savings deposits; those club accounts in the form of time deposits should be reported as time deposits (Item 13 or 14).

Note that for commercial banks, Edge Act and Agreement corporations, and U.S. branches and agencies of foreign banks, savings deposits held by a corporation, association, or other organization operated for profit are limited to $150,000. "Savings" deposits in excess of this amount must be reported as demand deposits.

Exclude from other savings deposits any NOW or share draft accounts (reported in Item 6); MINOW and POW accounts (reported in Item 3); ATS accounts (reported in Item 4); special passbook or statement accounts, such as "ninety-day notice accounts," "golden passbook accounts", or savings certificates, that have a specified original maturity or required notice period of 14 days or more (reported in Items 13 or 14); and interest or dividends accrued but not yet paid or credited to a savings deposit or share account.

Item 10: Other Savings Deposits--Personal. Report in this item the balance of all other savings deposits or share accounts that represent funds in which the entire beneficial interest is held by one or more natural persons. Also include as "personal" savings deposits: (1) all Individual Retirement Accounts (IRA) and Keogh Plan Accounts in the form of savings deposits, and (2) trust funds held in the name of a trustee or other fiduciary if the entire beneficial interest is held by a natural person and other conditions of a savings deposit are met. In addition, escrow accounts are regarded as "personal" savings deposits if the depositor is a natural person and the other conditions of a savings deposit are met, even if the funds are held by the reporting institution as escrow agent.

Item 11: Other Savings Deposits--Nonpersonal. Report in this item the balance of all other savings deposits or share accounts that are transferable and that represent funds in which any beneficial interest is held by a depositor that is not a natural person.

Item 12: Total Other Savings Deposits. Report in this item the sum of Items 10 and 11.

Time Deposits (Items 13 through 16)

Time deposits are defined as deposits that are payable on a specified date, after a specified period of time from the date of deposit, or after a specified notice period, which in all cases may not be less than 14 days from the date of deposit. Time deposits may be interest-bearing or noninterest-bearing. For purposes of this report, time deposits include, but are not limited to, (1) time certificates of deposit or share certificate accounts (whether negotiable or nonnegotiable); (2) time deposit or share certificate open accounts; (3) savings

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certificates, notice accounts, and passbook accounts; (4) money market time deposits; (5) escrow funds or trust accounts that meet the criteria of time deposits; (6) credit balances that meet the definition of time deposits; (7) all Individual Retirement Accounts (IRA) and Keogh Plan Accounts held in the form of time deposits; (8) Nontransferable time deposits held by an employer as part of an unfunded deferred compensation plan established pursuant to subtitle D of the Reserve Act of 1978 (Pub. L No. 95-600, 92 Stat. 2763); (9) time deposits or share certificates maintained as compensating balances or pledged as collateral for loans; and (10) all interest or dividends paid by crediting time deposit accounts.

Time deposits also include those liabilities referred to as "primary obligations" that are described earlier, and that are issued in an original maturity or with a required notice period of 14 days or more.

In addition, all depository institutions other than Edge Act and Agreement corporations, commercial banks that were members of the Federal Reserve System on September 1, 1980, and commercial banks that were members of the System on or after July 1, 1979 but withdrew from membership prior to September 1, 1980, should include as time deposits those club accounts in the form of time deposits (see paragraph under "Other Savings Deposits" for treatment of club accounts).

Exclude from time deposits matured time deposits that are not automatically renewed (to be reported as a demand or savings deposit, as appropriate). Exclude from time deposits and from this report subordinated notes and debentures, borrowings from "exempt entities", and interest or dividends accrued but not yet paid or credited to a time deposit or share certificate account.

Item 13: Time Deposits--Personal. Report in this item all time deposits, regardless of maturity, that meet the criteria for "personal" deposits as specified in the Definitions section.

Item 14: Time Deposits--Nonpersonal. Report in Item 14.a the balance of all time deposits that meet the criteria for "nonpersonal" time deposits as specified in the Definitions section with original maturities of less than 3-1/2 years. Report in Item 14.b the balance of all time deposits that meet the criteria for "nonpersonal" time deposits as specified in the Definitions section with original maturities of 3-1/2 years or more.

Item 15: Total Time Deposits. Report in this item the sum of Items 13, 14.a, and 14.b.

Item 16: All time deposits in denomination of $100,000 or more. Report in this item the balance of all time deposits (including share certificate accounts), both personal and nonpersonal, of $100,000 or more reported in Item 13 or 14. Include deposits issued in denominations of less than $100,000 that, because of interest or dividends paid or credited, have a current balance of $100,000 or more. Also include all "primary obligations" that are reported in Item 13 or 14.

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In determining if a time deposit is $100,000 or more, do not combine separate accounts or certificates, even if held by the same customer.

Item 17: Vault Cash (tellers' cash, cash working funds). Include as vault cash only U.S. currency and coin owned and held by the reporting institution, whether or not held on the premises, that may, at any time, be used to satisfy depositors' claims; U.S. currency and coin in transit to a Federal Reserve Bank or a correspondent depository institution if the reporting institution has not yet received credit; and/ U.S. currency and coin in transit from a Federal Reserve Bank or a correspondent depository institution if the reporting institution has already been charged.

Exclude foreign currency and coin; currency and coin whose numismatic or bullion value is in excess of face value; and currency and coin that the reporting institution does not have the full right to use, such as coin collections held for safekeeping, or currency and coin sold under a repurchase agreement or purchased under a resale agreement.

Schedule A: Other Reservable Obligations by Remaining Maturity. For a discussion of the items to be reported in this schedule (obligations by affiliates and ineligible acceptances), refer to the Detailed Instructions for the Preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash.

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Board of Governors of the Federal Reserve System

To Holders of the Instructions Booklet Entitled

Instructions for Preparation of the

Report of Transaction Accounts, Other Deposits and Vault Cash (Reporting Form FR 2900)

For Use by Credit Unions

Revision # 6 Date April 1982

Enclosed is the sixth set of revisions to the instructions booklet. Each page in this set is labelled "Revision #6--April 1982." Please insert these revised pages in your booklet and discard the earlier version of these pages. The highlights of this revision are as follows:

1) The footnote (page 1) describing those institutions that are deferred from deposit reporting and reserve maintenance requirements has been changed to reflect recent Board actions.

2) The definition of "exempt entities" (page 15 and glossary) has been expanded to include investment companies or trusts in which the entire beneficial interest is held by depository institutions.

3) The reference to all demand deposit balances in Item 8 (page 23) has been changed to include only those balances that are subject to immediate withdrawal.

4) The minimum maturity for which a zero percent reserve ratio is imposed on time deposits has been reduced from 4 years to 3-1/2 years (Item 14, page 34).

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Record of Changes

FR 2500

Report of Transaction Accounts, Other Deposits and Vault Cash
For Use by Credit Unions

Revision Number	Date of Change	Pages Affected
1	December 1980	(New booklet issued)
2	April 1981	1,2,4,5,17,32,33,37, and G-4
3	September 1981	8,31,32,G-1,G-2, and G-9
4	November 1981	6
5	January 1982	22,23, and G-13
6	April 1982	1,3,15,23,34,38,40, and G-6

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DETAILED INSTRUCTIONS FOR PREPARATION OF THE REPORT OF TRANSACTION ACCOUNTS, OTHER DEPOSITS AND VAULT CASH (FR 2900)

For Use by Credit Unions

INTRODUCTION

Under the Monetary Control Act of 1980, every depository institution located in the United States that has transaction accounts or nonpersonal time deposits is required to hold reserves and to file with the Federal Reserve a Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). Every depository institution that obtains funds from foreign (non-U.S.) sources or that maintains foreign (non-U.S.) branches is also required to file with the Federal Reserve a Report of Certain Eurocurrency Transactions.1/ Rules governing the reporting and the reserve requirement provisions of the Monetary Control Act are contained in Federal Reserve Regulation D, "Reserve Requirements of Depository Institutions."2/

This booklet provides detailed instructions for preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900) by all credit unions. This booklet is organized into two sections followed by a glossary. Section 1 contains general instructions and guidelines; Section 2 contains item-by-item instructions; and the glossary defines in alphabetic order important terms and phrases that appear in all capital letters in Sections 1 and 2. This booklet has been printed in looseleaf form to allow for any future changes.

This booklet has been designed to facilitate accurate preparation of the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). The instructions that follow in Sections 1 and 2 are intended to provide a comprehensive presentation of applicable regulations, interpretations, and legal opinions governing the classification of deposits subject to reserve requirements. Each credit union is urged to review this material carefully and to use it as the basic guide in preparing the report.

Accurate preparation of these reports is an important first step in the reserve maintenance cycle. Based on the deposit levels that your credit union reports for each reporting period, the Federal Reserve calculates the level of reserves that must be deposited directly with, or passed through to, a Federal Reserve Bank on those deposits two weeks later for weekly reporters, or four weeks later for quarterly reporters. Efficient reserve management begins with accurate deposit reporting. Errors in reporting may result in higher reserve requirements, which could reduce your institution's potential earnings, or in insufficient reserves, which may subject your institution to the assessment of penalties.

1/ Any credit union that has obtained funds from a foreign (non-U.S.) source or that has foreign (non-U.S.) offices (excluding those located on U.S. military facilities outside the U.S.) should contact the Federal Reserve Bank for the District in which it is located to obtain forms and instructions for the Report of Certain Eurocurrency Transactions (FR 2950).

2/ The Federal Reserve Board has deferred reporting and reserve requirements for all credit unions (and for certain other depository institutions) with total deposits of less than $2 million as of December 31, 1979 (or that were organized de novo after 12/31/79) that had total deposits of less than $15 million as of December 31, 1980 and as of December 31, 1981 when total deposits of such institutions exceed $15 million after December 31, 1981, the institution must commence reporting and maintaining reserves on a quarterly basis.

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In order to avoid the imposition of unnecessary reserve requirements and to provide accurate monetary statistics, deposits should be classified according to the instructions in this booklet and should not be reported in more than one type of deposit category.

In addition to their use in the calculation of required reserves, data from these reports are basic to the construction of the monetary aggregates that are used by the Federal Reserve System in the formulation and conduct of monetary policy. Inaccurate reporting results in deterioration in the quality of the monetary aggregate estimates.

The following instructions are based on Regulation D of the Board of Governors of the Federal Reserve System [12 CFR §204] and in no way alter or modify the requirements of Regulation D. While every effort has been made to incorporate all existing regulatory provisions, this booklet should not be considered the final authority on the deposit status of all instruments, obligations, or transactions. Final authority rests with the Board of Governors of the Federal Reserve System. Inquiries concerning specific instruments, obligations, or transactions, as well as suggestions for improving the content of this booklet, may be directed to the Federal Reserve Bank in your District.

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Revision #6--April 1982

SECTION 1--GENERAL INSTRUCTIONS

Section 1 contains general instructions and guidelines which provide credit unions with the basic framework for reporting on the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900) and which describe, in general, the nature of reservable liabilities and the specific procedures for reporting these liabilities.

These instructions are intended to be comprehensive and to provide for all types of transactions that a credit union could conceivably have within the scope of this report. However, it is likely that not all of the transactions described in this section may be applicable to every credit union.

A. Who Must Report. Any credit union located in the U.S. that has TRANSACTION ACCOUNTS 1/ or NONPERSONAL TIME DEPOSITS must file the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900).

NOTE: For those credit unions described above that have total shares and deposits of less than $2 million as of December 31, 1979, and less than $15 million as of December 31, 1980 and 1981, reporting and reserve requirements have been deferred. Such institutions whose total deposits exceed $15 million after December 31, 1981, must commence reporting and maintaining reserves on a quarterly basis.

B. Frequency of Report.

B.1. Those credit unions with total shares and deposits of $15 million or more as of December 31, 1979 shall submit the report each week.

B.2. Those credit unions with total shares and deposits of between $2 and $15 million as of December 31, 1979 shall submit the report once each calendar quarter for a seven-day computation period that begins on the third Thursday of a given month during the calendar quarter. The specific reporting month during the quarter for each respondent shall be designated by the Federal Reserve Bank in whose District the respondent is located.

Those credit unions eligible for quarterly reporting retain the option of reporting on a weekly rather than quarterly basis. A credit union will remain eligible for quarterly rather than

1/ Terms and phrases appearing in all capital letters are defined and described in alphabetical order in the glossary section at the end of this manual.

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C. How to Report. The report shall reflect amounts outstanding as of the close of business each day during the reserve computation period. The computation period is the seven-day period that starts on Thursday and ends on the following Wednesday. If your credit union had no outstanding balances of reservable liabilities to report during the computation period, please indicate this by checking the box at the top of the reporting form, sign the report, and send it to your local Federal Reserve Bank or Branch.

NOTE: If a credit union that reports weekly had reservable liabilities during a computation period but subsequently did not have reservable liabilities for a period of four consecutive weeks, the credit union need not continue to submit a report until such time as it again has reservable liabilities to report.

The report shall be prepared in accordance with the procedures described below.

C.1. Consolidation. Each credit union must prepare a consolidated report that combines all deposits, vault cash, and allowable deductions of the following entities:

a. the principal office of the credit union; and

b. all branch offices located in the 50 states or the District of Columbia.

Preparing a consolidated report involves combining all comparable accounts of the principal office and any branch offices to be consolidated on an account-by-account basis.

C.2. Denomination. Amounts should be rounded and reported to the nearest thousand dollars.

C.3. Overdrafts or Negative Balances. All share or deposit accounts, including SHARE DRAFT ACCOUNTS, having a negative balance as of the close of business each day (whether resulting from prearranged or unplanned overdrafts or from operating or other factors) should be regarded as having a zero balance when computing deposit totals. Overdrawn share or deposit accounts of customers should be considered loans made by the credit union and should not be reported as negative deposits. Similarly, share or deposit accounts that the credit union maintains at a correspondent bank that have negative balances should be regarded as having a zero balance when computing "due from" totals.

However, overdrawn accounts of a depositor who maintains more than one TRANSACTION ACCOUNT at the credit union may be offset by accounts with positive balances if a bona fide cash management function is served.

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(deletion)

Depending on whether or not the credit union routinely maintains sufficient funds in its account with another DEPOSITORY INSTITUTION to cover CHECKS or DRAFTS issued, negative balances are considered either as borrowings by the credit union or as deposits due to the DEPOSITORY INSTITUTION. Specifically, when an account which the credit union routinely maintains with sufficient balances to cover CHECKS or DRAFTS drawn in the normal course of business becomes overdrawn, negative balances that result from such occasional overdrafts are regarded as borrowings by the credit union and should not be included on this report. However, CHECKS or DRAFTS drawn against an account that is not routinely maintained with sufficient balances, or that are drawn against a "zero balance" account (i.e., an account where funds are remitted by the credit union only when it has been advised that the CHECKS or DRAFTS have been presented) are considered to be deposits due to the DEPOSITORY INSTITUTION and must be reported in Item 1.a or 1.b, as appropriate.

C.4. Record-keeping. The amounts reported for each day should reflect the amounts outstanding at the "close of business" for that day. The term "close of business" refers to the time established by the credit union as the cut-off time for posting transactions to its accounting records for that particular day. The time designated as close of business should be reasonable and applied consistently.

For purposes of this report, the credit union is open when entries are made to the accounting records of the credit union for that particular day. The posting of a transaction to the general ledger account means that both debit and credit entries must be recorded as of the same day. For any day on which the credit union was closed, report the closing balance as of the preceding day.

NOTE: If, according to your standard accounting practices, closing balances for accounts reported on this report are not available on a daily basis, you may report the same closing balance for subsequent days provided that your closing balances for these accounts are updated at least once a week. For example, a credit union that uses a weekly batch system may have closing balances only as of each Friday. In this case, the balances for the preceding Friday should be reported for Thursday of the current computation week; the balances for Friday of the current computation week should be reported not only for Friday but also for the following Saturday, Sunday, Monday, Tuesday, and Wednesday, and for the first Thursday of the next computation period.

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C.5. UNPOSTED DEBITS and CREDITS. UNPOSTED DEBITS consist of cash items drawn on the credit union that have been "paid" or credited by the credit union and that are chargeable, but that have not been charged, against deposits as of the close of business. These items should be reported as "cash items in process of collection" until they have been charged to either individual or general ledger deposit accounts.

UNPOSTED CREDITS consist of items that have been received for deposit and that are in process of collection but that have not been posted to individual or general ledger deposit accounts. These credits should be reported as deposits.

C.6. Rejected items. Rejected items (resulting from mutilated documents, incorrect account numbers or other factors) that would otherwise have resulted in credit to deposit accounts should be included in deposit totals for the day on which offsetting debits have been posted. Rejected items that represent withdrawals from deposit accounts, for which appropriate corresponding credits have already been recorded, should be deducted from deposits as of the close of business for that day.

C.7. Treatment of International Banking Facility (IBF) accounts. If your credit union establishes an International Banking Facility (IBF), please contact your local Federal Reserve Bank for reporting instructions.

D. What Liabilities Are Reservable Under Federal Reserve Regulation D. Under the Monetary Control Act of 1980, TRANSACTION ACCOUNTS and NONPERSONAL TIME DEPOSITS (including NONPERSONAL SAVINGS DEPOSITS) are subject to Federal reserve requirements. Rules governing reserve requirements are contained in Federal Reserve Regulation D.

TRANSACTION ACCOUNTS include DEMAND DEPOSITS; ATS ACCOUNTS; SHARE DRAFT ACCOUNTS; accounts that permit a depositor to make payments to third parties through automated teller machines, remote service units or by means of a debit card; accounts that permit a depositor to make more than three TELEPHONE or PREAUTHORIZED TRANSFERS per month (or a period equivalent to a month that is at least 4 weeks long); and other reservable obligations, including certain borrowings, that mature in less than 14 days.

Nonpersonal time deposits include NONPERSONAL SAVINGS and NONPERSONAL TIME DEPOSITS (including SHARE ACCOUNTS, SHARE CERTIFICATE ACCOUNTS, and CERTIFICATES OF INDEBTEDNESS), and other reservable obligations including certain borrowings that mature in 14 days or more. Detailed instructions defining TRANSACTION ACCOUNTS and NONPERSONAL TIME DEPOSITS can be found in the appropriate item-by-item instructions.

E. Deposits as Defined Under Federal Reserve Regulation D. In general, Regulation D defines "deposits" to include both shares and deposits, and other obligations issued including certain borrowings of the credit union. For purposes of these instructions, "deposits" are divided into two broad categories of liabilities: DEPOSITS and PRIMARY OBLIGATIONS that are undertaken as a means of obtaining funds, regardless of the use of the proceeds.

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Revision #1--December 1980

E.1. DEPOSITS to be included in Items 1 through 16 of this report consist of:

a. Funds received or held by the credit union for which credit has been given or is obligated to be given to a DEMAND, SAVINGS (including SHARE, SHARE DRAFT, ATS, and TELEPHONE and PREAUTHORIZED TRANSFER ACCOUNTS), or TIME DEPOSIT (including SHARE CERTIFICATE) account.

b. Funds received or held by the credit union for a special or specific purpose, including escrow funds, funds held as security for securities loaned by the credit union, and funds deposited with the credit union as advance payment on subscriptions to U.S. Government securities.

c. Outstanding CERTIFIED AND CASHIERS' CHECKS and DRAFTS issued by the credit union in the usual course of business for any purpose, including payment for services, DIVIDENDS, or purchases, unless drawn on a deposit account at a Federal Reserve Bank or on a deposit account in which a positive balance is maintained at another DEPOSITORY INSTITUTION.

d. Disbursement checks, PAYABLE THROUGH DRAFTS, or other CHECKS that are drawn against an account at another DEPOSITORY INSTITUTION that is not rountinely maintained with sufficient balances to cover CHECKS or DRAFTS drawn in the normal course of business, or that are drawn against a "zero balance" account (i.e., an account where funds are remitted by the credit union only when it has been advised that the CHECKS or DRAFTS have been presented).

e. Liabilities arising from the sale of travelers checks and money orders sold to customers unless the proceeds are remitted daily to another party under a consignment arrangement.

f. Any obligation to pay a CHECK or SHARE DRAFT, such as a CERTIFIED CHECK drawn on the credit union, that has been presented for collection by a third party when the depositor's account at the credit union has already been charged, but when settlement of the CHECK has not been made.

g. Any funds received by the credit union's AFFILIATE and channeled to the credit union by the AFFILIATE in the form of a DEMAND, SAVINGS, or TIME DEPOSIT.

E.2. PRIMARY OBLIGATIONS to be reported as deposits in Items 1 through 16 of this report consist of:

a. Liabilities of the credit union arising from the issuance of promissory notes (including CERTIFICATES OF INDEBTEDNESS), ACKNOWLEDGEMENTS OF ADVANCE, or other similar obligations (written or oral) that are issued by the credit union to NONEXEMPT ENTITIES as a means of obtaining funds, except where

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such obligations are issued for the purpose of raising funds to be used by the credit union to purchase business premises, equipment, supplies, or similar assets. (NOTE: Purchases of "Federal funds" from NONEXEMPT ENTITIES are PRIMARY OBLIGATIONS.)

b. Liabilities of the credit union arising from the sale to a NONEXEMPT ENTITY of a security or other similar asset under a prearranged agreement to repurchase the same or similar security or asset at a later date (REPURCHASE AGREEMENTS). (NOTE: REPURCHASE AGREEMENTS entered into with EXEMPT ENTITIES and those involving obligations of, or obligations fully-guaranteed as to principal and interest by, the U.S. Government or a Federal agency are not regarded as PRIMARY OBLIGATIONS for purposes of this report.)

c. Funds raised through the issuance and sale of mortgage securities (backed by a pool of conventional, non-federally insured mortgages) to NONEXEMPT ENTITIES if the originating credit union is obligated to incur more than the first ten percent of any loss associated with that pool of mortgages.

This treatment, however, does not apply to normal mortgage loan participation transactions where the buyer and seller of a participation in a mortgage loan or pool of mortgages share all risk of loss on a pro rata basis. In such instances, any funds raised through the sale of such participations are not subject to reserve requirements.

d. Liabilities of the credit union in the form of mortgage-backed bonds that are issued and sold by the credit union to NONEXEMPT ENTITIES.

E.3. PRIMARY OBLIGATIONS to be reported in Schedule A of this report:

Any liability of the credit union's nondepository AFFILIATE on any promissory note (including a CERTIFICATE OF INDEBTEDNESS), ACKNOWLEDGEMENT OF ADVANCE, or similar obligation (written or oral), with a maturity of less than four years, to the extent that the proceeds are used to supply or maintain the availability of funds to the credit union, if the AFFILIATE's liability would have been regarded as reservable if issued by the credit union, and if the proceeds from the AFFILIATE's liability are channeled to the credit union in the form of a nonreservable transaction (e.g., a sale of the credit union's assets to its AFFILIATE).

NOTE: If the proceeds from the AFFILIATE's liability (whether regarded as reservable or nonreservable if issued by the credit union) are channeled to the credit union in the form of a DEMAND,

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SAVINGS, or TIME DEPOSIT, such funds are reported by the credit union as a DEMAND, SAVINGS, or TIME DEPOSIT. (See Subsection E.1, paragraph g. above.) If the AFFILIATE's liability would have been regarded as nonreservable if issued by the credit union, and if the proceeds from the AFFILIATE's liability are channeled to the credit union in the form of a nonreservable transaction, such funds are excluded from this report.

E.4. PRIMARY OBLIGATIONS issued to EXEMPT ENTITIES are not subject to reserve requirements and are excluded from this report.

NOTE: Regulations may require certain obligations that are not classified as deposits on other reports to be treated as deposits on this report. Consequently, the deposit balances on this report may differ from amounts reported in corresponding lines of your credit union's report of condition and on other reports submitted to the National Credit Union Administration or the state regulatory supervisors.

In general, funds received by an institution that are immediately applied to reduce or extinguish a customer's indebtedness to that institution do not constitute deposits since no liability is incurred. However, where a credit union receives funds representing loan repayments in the course of servicing loans for others, such funds represent deposits. Funds that have been irrevocably assigned to the credit union and cannot be reached by its customer or by the customer's creditors are not subject to reserve requirements. Finally, certain other liabilities that do not result in a receipt of funds, such as accrued liabilities and accounts payable, are not regarded as reservable liabilities.

F. Treatment of Pass-through Balances. A DEPOSITORY INSTITUTION may satisfy reserve requirements by holding vault cash or by placing a balance at the Federal Reserve. The Monetary Control Act of 1980 authorizes a DEPOSITORY INSTITUTION that is not a member of the Federal Reserve System to hold its required reserve balances at the Federal Reserve in one of two ways. Such an institution may deposit its required reserve balance directly with the Federal Reserve Bank or Branch which serves the territory in which its main office is located. Alternatively, in accordance with procedures adopted by the Federal Reserve Board, the DEPOSITORY INSTITUTION may elect to pass its required reserve balance through a "correspondent." Under this alternative, the DEPOSITORY INSTITUTION who chooses to pass through its reserve balances is referred to as the "respondent." A "correspondent" may be a Federal Home Loan Bank, the National Credit Union Administration Central Liquidity Facility, or a DEPOSITORY INSTITUTION which holds a required reserve balance directly at a Federal Reserve Bank or Branch. In addition, the Federal Reserve Board reserves the right to permit other institutions (such as corporate central credit unions), on a case-by-case basis, to serve as a pass-through correspondent. The "correspondent" shall pass through these reserve balances to the Federal Reserve Bank or Branch in the territory in which the principal office of the "respondent" is located.

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For purposes of this report, the "correspondent" institution shall exclude from this report all reserve balances received from "respondent" institutions and subsequently passed through to the appropriate Federal Reserve Bank or Branch. All "respondent" institutions shall exclude from this report all reserves balances which the "correspondent" passes through to the Federal Reserve Bank or Branch on behalf of the "respondent."

G. Treatment of Special Deposits. Special deposits, such as bonds, stocks, jewelry, coin collections, etc., that are left for safekeeping with the credit union, should not be included as deposits on this report.

H. Treatment of Escrow Funds. Escrow funds consist of funds deposited with the credit union under an agreement that requires the credit union to pay all or some portion of the funds to a third party at a certain time or upon fulfillment of certain conditions. Depending on the classification of escrow funds, the obligation of the credit union on the funds maintained may constitute a deposit liability against which reserves must be held.

Escrow funds should be classified as TRANSACTION ACCOUNTS, SAVINGS DEPOSITS, or TIME DEPOSITS, depending on the terms of the underlying agreement. Escrow funds will be regarded as PERSONAL SAVINGS DEPOSITS or PERSONAL TIME DEPOSITS if the depositor is a NATURAL PERSON and the other conditions of a SAVINGS or TIME DEPOSIT are met, notwithstanding that the funds are held by the credit union as an escrow agent. The classification of escrow funds as TIME or SAVINGS DEPOSITS does not depend on whether or not INTEREST is paid on the funds. Escrow agreements entered into by the credit union in states where the payment of INTEREST on such accounts is required by law must comply with the notice or maturity provisions applicable to TIME or SAVINGS DEPOSITS.

If the agreement between the depositor and the credit union does not specify the type of account in which escrow funds must be held, the credit union, acting as agent for itself, may place those funds in the type of account which the credit union deems appropriate.

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SECTION 2--ITEM-BY-ITEM INSTRUCTIONS

Section 2 contains item-by-item instructions for completing the FR 2900. This section describes the coverage of each item to be reported and specifies the categories of deposits to be included in or excluded from each item.

These instructions are intended to be comprehensive and to provide for all transactions that a credit union could conceivably have within the scope of this report. However, it is likely that not all of the items or transactions may be applicable to every credit union. In those cases where the item to be reported is not applicable to your credit union, enter a zero for that item.

TRANSACTION ACCOUNTS

Report as TRANSACTION ACCOUNTS those deposits or accounts on which the depositor or account holder is permitted to make withdrawals by negotiable or TRANSFERABLE instrument, payment order of withdrawal, TELEPHONE TRANSFER or similar device for the purpose of making payments or transfers to third parties or to other accounts of the same depositor.

Include as TRANSACTION ACCOUNTS:

1. DEMAND DEPOSITS;

2. DEPOSITS or accounts subject to withdrawal by CHECK, DRAFT, negotiable order, or SHARE DRAFT;

3. SAVINGS DEPOSITS or accounts from which withdrawals may be made automatically through payment to the credit union itself or through transfer of credit to a DEMAND DEPOSIT, SHARE DRAFT or other account in order to cover CHECKS or DRAFTS drawn upon the institution or to maintain a specified balance in such accounts;

4. DEPOSITS or accounts from which payments may be made to third parties by means of a debit card, an automated teller machine (ATM), remote service unit (RSU), or other electronic device;

5. DEPOSITS or accounts from which the depositor is permitted or authorized to make more than 3 withdrawals per month for purposes of transferring funds to another account or making payment to a third party by means of TELEPHONE or PREAUTHORIZED TRANSFER;

6. INTEREST or DIVIDENDS paid by crediting a TRANSACTION ACCOUNT.

NOTE: An account is not regarded as a TRANSACTION ACCOUNT merely because it permits the depositor to make loan repayments and pay associated expenses to the credit union.

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Exclude from TRANSACTION ACCOUNTS those PRIMARY OBLIGATIONS maturing in less than 14 days if they take the form of ineligible acceptances or of obligations issued by the credit union's AFFILIATES described in Section 1, Subsection E.3 (to be reported in Schedule A, Item 1).

Summary of Transaction Account Classifications

A. Always Regarded as TRANSACTION ACCOUNTS

1. DEMAND DEPOSITS.

2. SHARE DRAFT ACCOUNTS.

3. ATS ACCOUNTS.

4. Accounts that permit third party payments through ATMs or RSUs.

5. Accounts that permit third party payments through use of CHECKS, DRAFTS, negotiable instruments, debit cards or other similar items.

B. Accounts Regarded as TRANSACTION ACCOUNTS If More Than Three of the Following Transactions Per Calendar Month Are Permitted to Be Made By Telephone or Preauthorized Order or Instruction

1. Payments or transfers to third parties.

2. Transfers to another account of the depositor at the same institution.

3. Transfers to an account at another DEPOSITORY INSTITUTION.

C. Not Regarded as TRANSACTION ACCOUNTS (unless specified above)

1. Accounts that permit TELEPHONE or PREAUTHORIZED TRANSFERS or transfers by ATMs or RSUs to repay loans made or serviced by the same DEPOSITORY INSTITUTION.

2. Accounts that permit TELEPHONE or PREAUTHORIZED TRANSFERS or withdrawals where the proceeds are to be mailed to or picked up by the depositor.

3. Accounts that permit transfers to other accounts of the depositor at the same institution through ATMs or RSUs.

4. Accounts that permit three or less TELEPHONE or PREAUTHORIZED TRANSFERS or payments to third parties or to other accounts.

Demand Deposits (Items 1, 2, and 3)

For Items 1, 2, and 3, DEMAND DEPOSITS include DEPOSITS described in Section 1, Subsection E.1, and PRIMARY OBLIGATIONS issued to NONEXEMPT ENTITIES described in Section 1, Subsection E.2, that are payable imme-

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distely on demand or issued in ORIGINAL MATURITIES of less than 14 days, or that are payable with less than 14 days notice, or for which the credit union does not reserve the right to require at least 14 days written notice of an intended withdrawal.

Include as DEMAND DEPOSITS:

1. All checking accounts, including those pledged as collateral for loans or maintained as compensating balances. However, do not include SHARE DRAFT ACCOUNTS, which are reported in Item 6.

2. Outstanding CERTIFIED AND CASHIERS' CHECKS and DRAFTS issued by the credit union unless drawn on a deposit account at a Federal Reserve Bank or on a deposit account in which a positive balance is maintained at another DEPOSITORY INSTITUTION.

3. Disbursement checks, PAYABLE THROUGH DRAFTS, or other CHECKS drawn against an account at another DEPOSITORY INSTITUTION that is not routinely maintained with sufficient balances to cover CHECKS or DRAFTS drawn in the normal course of business, or that are drawn against a "zero balance" account (i.e., an account where funds are remitted by the credit union only when it has been advised that the CHECKS or DRAFTS have been presented) are considered to be deposits due to the DEPOSITORY INSTITUTION and must be reported in Item 1.a or 1.b, as appropriate.

4. Outstanding travelers checks and money orders sold to customers unless the proceeds are remitted daily to another party under a consignment arrangement.

5. Withheld taxes, withheld insurance premiums, and other funds withheld from salaries of the credit union's employees until such funds are remitted.

6. Funds received or held in escrow accounts that may be withdrawn on demand or within 14 days from the date of deposit (excluding those escrow accounts classified as SAVINGS DEPOSITS or TIME DEPOSITS). (See Section 1, Subsection H, for general treatment of escrow funds.)

7. All matured TIME CERTIFICATES OF DEPOSIT (including SHARE CERTIFICATES and CERTIFICATES OF INDEBTEDNESS), unless the deposit agreement specifically provides for (a) transfer at maturity to a SAVINGS DEPOSIT, SHARE ACCOUNT, or other TIME DEPOSIT, or (b) automatic renewal at maturity. (Automatically renewable time deposits remain TIME DEPOSITS until redeemed.)

8. All matured TIME DEPOSITS, OPEN ACCOUNT, (including SHARE CERTIFICATE ACCOUNTS) for which the depositor has provided a written notice indicating an intention to withdraw the deposit at the expiration of the notice period, but that have not been redeemed by the depositor.

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9. An obligation to pay on demand or within 14 days a CHECK or SHARE DRAFT (or other instrument, device, or arrangement for the transfer of funds) drawn on the credit union, when the depositor's account has already been debited.

10. Any funds received by the credit union's AFFILIATE and later channeled to the credit union by the AFFILIATE in the form of a DEMAND DEPOSIT.

Exclude from DEMAND DEPOSITS the following categories of liabilities that have an ORIGINAL MATURITY of less than 14 days:

1. HYPOTHECATED DEPOSITS (does not include shares or deposits pledged as collateral for loans).

2. CHECKS or DRAFTS drawn by the credit union on an account maintained at a Federal Reserve Bank or on a deposit account in which a positive balance is maintained at another DEPOSITORY INSTITUTION.

3. Liabilities of the credit union that arise from REPURCHASE AGREEMENTS involving obligations of, or obligations fully-guaranteed as to principal and interest by, the U.S. Government or a Federal agency.

4. Any PRIMARY OBLIGATION issued or undertaken as a means of obtaining funds, regardless of the use of the proceeds, when transacted with a U.S. office of the following EXEMPT ENTITIES:

   a. U.S. commercial banks and trust companies and their OPERATIONS SUBSIDIARIES;

   b. a U.S. BRANCH OR AGENCY of a bank organized under foreign (NON-U.S.) law (including branches and agencies of FOREIGN OFFICIAL BANKING INSTITUTIONS);

   c. EDGE ACT and AGREEMENT CORPORATIONS;

   d. mutual and stock savings banks;

   e. building or savings and loan associations and homestead associations;

   f. cooperative banks;

   g. industrial banks;

   h. other credit unions (including corporate central credit unions);

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i. New York State investment companies (chartered under Article XII of the New York State Banking Code) that perform a BANKING BUSINESS and that are majority-owned by one or more NON-U.S. BANKS;

j. Investment companies or trusts in which the entire beneficial interest is held by a depository institution;

k. U.S. Government and its agencies and instrumentalities, such as the Central Liquidity Facility, National Credit Union Share Insurance Fund, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortgage Association, Federal Financing Bank, and Student Loan Marketing Association;

l. Export-Import Bank of the U.S.;

m. Government Development Bank of Puerto Rico;

n. Minbanc Capital Corporation;

o. securities dealers, but only when the borrowing (1) has a maturity of one day, (2) is in IMMEDIATELY-AVAILABLE FUNDS, and (3) is in connection with the clearance of securities; and

p. the U.S. Treasury (U.S. TREASURY TAX AND LOAN ACCOUNT NOTE BALANCES).

5. Funds obtained from state and municipal housing authorities under LOAN-TO-LENDER PROGRAMS involving the issuance of tax exempt bonds and the subsequent lending of the proceeds to the credit union for housing finance purposes.

6. Borrowings from a Federal Reserve Bank.

7. Certain obligations issued by the credit union's nondepository AFFILIATES, described in Section 1, Subsection E.3. (These transactions are to be reported in Schedule A, Item 1.)

8. Shares of the credit union held by the National Credit Union Administration (NCUA) or the NCUA Central Liquidity Facility.

NOTE: Unless created as a result of a bona fide cash management arrangement, overdrafts in DEMAND DEPOSIT accounts are not to be treated as negative DEMAND DEPOSITS since overdrafts are properly reflected on an institution's books as loans.

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Revision #1--December 1980

Item 1--Demand Deposits Due to Depository Institutions

Report in Item 1.a DEMAND DEPOSITS in the form of DEPOSITS due to commercial banks, EDGE ACT and AGREEMENT CORPORATIONS located in the U.S. and abroad, and U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS. Report in Item 1.b DEMAND DEPOSITS in the form of DEPOSITS due to other DEPOSITORY INSTITUTIONS. PRIMARY OBLIGATIONS issued to DEPOSITORY INSTITUTIONS in the U.S. are not subject to reserve requirements and should not be reported in this item.

Exclude from both Items 1.a and 1.b:

1. DEMAND DEPOSITS due to:

   a. "Respondent" DEPOSITORY INSTITUTIONS to the extent that such deposits represent balances that your credit union serving as pass-through agent or correspondent has passed through to the Federal Reserve Bank for the "respondent."

   b. Nondeposit and limited purpose trust companies (reported in Item 3).

   c. Nondepository AFFILIATES of the credit union and of other DEPOSITORY INSTITUTIONS (reported in Item 3).

   d. The U.S. Government (reported in Item 2) and its agencies and instrumentalities (reported in Item 3), such as the Central Liquidity Facility, National Credit Union Share Insurance Fund, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortgage Association, Federal Financing Bank, Student Loan Marketing Association, and the Export-Import Bank of the U.S.

2. Any DEMAND DEPOSIT due to a DEPOSITORY INSTITUTION that is negative (i.e., overdrawn). The amount of such a negative balance should be regarded as zero when computing the deposit total.

3. Any PRIMARY OBLIGATIONS issued to NON-U.S. offices of U.S. DEPOSITORY INSTITUTIONS and of FOREIGN (NON-U.S.) BANKS (reported on the Report of Certain Eurocurrency Transactions (FR 2950)).

Item 1.a.--Due to Banks

Include in this item the balance of all DEMAND DEPOSITS in the form of DEPOSITS (exclude PRIMARY OBLIGATIONS) due to the following:

1. U.S. offices of the following institutions:

   a. U.S. commercial banks (including private banks) and trust companies conducting a commercial BANKING BUSINESS;

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b. BANKERS' BANKS that are organized as commercial banks;

c. BRANCHES AND AGENCIES OF FOREIGN (NON-U.S.) BANKS (including branches and agencies of FOREIGN OFFICIAL BANKING INSTITUTIONS);

d. EDGE ACT and AGREEMENT CORPORATIONS;

e. industrial banks; and

f. New York State investment companies (chartered under Article XII of the New York State Banking Code) that perform a BANKING BUSINESS and that are majority-owned by one or more NON-U.S. BANKS.

2. NON-U.S. offices of:

a. U.S. banks and EDGE ACT and AGREEMENT CORPORATIONS; and

b. commercial banks, merchant banks, discount houses, and similar banking institutions organized under the laws of a foreign country, Puerto Rico, Guam, American Samoa, the Virgin Islands, or another territory of the United States.

Item 1.b--Due to Other Depository Institutions

Include in this item DEMAND DEPOSITS in the form of DEPOSITS (exclude PRIMARY OBLIGATIONS) due to:

1. mutual and stock savings banks (including those that are BANKERS' BANKS);

2. building or savings and loan associations, homestead associations, and cooperative banks (including those that are BANKERS' BANKS); and

3. other credit unions (including corporate central credit unions).

Item 2--U.S. Government Demand Deposits

Include in this item the balance of all DEMAND DEPOSIT accounts in the form of DEPOSITS that are designated as FEDERAL PUBLIC FUNDS, such as:

1. withheld federal income tax deposits, social security tax deposits and other federal tax payments, and the proceeds from sales of U.S. Savings Bonds, including such funds held in U.S. TREASURY TAX AND LOAN ACCOUNTS (exclude TREASURY TAX AND LOAN ACCOUNT NOTE BALANCES);

2. U.S. TREASURY GENERAL ACCOUNTS and special collection accounts;

3. U.S. Treasury compensating balance DEMAND DEPOSIT accounts;

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4. Postmaster's DEMAND DEPOSIT accounts;

5. DEMAND DEPOSIT accounts of the Tennessee Valley Authority and other government-owned corporations, and disbursing officers of the Department of Defense and Department of the Treasury;

6. DEMAND DEPOSIT accounts of other public funds that are subject to control or regulation by the United States Government, including accounts of military organizations, such as post exchanges, military clubs and similar entities.

Please note that, for this item, DEMAND DEPOSITS include only DEPOSITS held for the credit of the U.S. Government, and exclude any PRIMARY OBLIGATIONS to the U.S. Government. Such PRIMARY OBLIGATIONS are not subject to reserve requirements and are not to be reported on this report.

Exclude from this item:

1. DEMAND DEPOSITS due to U.S. Government agencies and instrumentalities (reported in Item 3), such as the Central Liquidity Facility, National Credit Union Share Insurance Fund, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortgage Association, Federal Financing Bank, Student Loan Marketing Association, and the Export-Import Bank of the U.S.;

2. DEMAND DEPOSITS held for state or local governments or their political subdivisions (reported in Item 3);

3. TREASURY TAX AND LOAN ACCOUNT NOTE BALANCES (see below); and

4. PRIMARY OBLIGATIONS.

Treatment of Note Option and Remittance Option

Only the deposits credited to the U.S. TREASURY TAX AND LOAN demand deposit account that represent funds received as of the close of business of the current day should be reported as TREASURY TAX AND LOAN Demand Deposits. Funds credited to Tax and Loan Demand Deposit Accounts as of the close of business on previous days should already have been remitted to the Federal Reserve Banks or automatically converted into open-ended interest-bearing notes, depending on the option selected by the reporting institution. Interest-bearing TREASURY TAX AND LOAN ACCOUNT NOTE BALANCES are exempt from reserve requirements and should not be reported as deposits.

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Item 3--Other Demand Deposits

Include in this item the balance of all other DEMAND DEPOSITS in the form of DEPOSITS and PRIMARY OBLIGATIONS, including:

1. DEMAND DEPOSITS in the form of DEPOSITS held for:

   a. individuals, partnerships, and corporations, wherever located;

   b. state and local governments and their political subdivisions;

   c. U.S. Government agencies and instrumentalities, such as the Central Liquidity Facility, National Credit Union Share Insurance Fund, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortgage Association, Federal Financing Bank, Student Loan Marketing Association, and the Export-Import Bank of the U.S.;

   d. nondeposit and limited purpose trust companies;

   e. nondepository AFFILIATES of the credit union and of other DEPOSITORY INSTITUTIONS; and

   f. INTERNATIONAL INSTITUTIONS.

2. Withheld state and local government taxes, insurance premiums, and similar items, but not withheld Federal tax payments (reported in Item 2).

3. Outstanding CERTIFIED AND CASHIERS' CHECKS and DRAFTS issued by the credit union, unless drawn on an account maintained at a Federal Reserve Bank or on a deposit account in which a positive balance is maintained at another DEPOSITORY INSTITUTION. (NOTE: CHECKS or DRAFTS drawn against an account that is not routinely maintained with sufficient balances, or that are drawn against a "zero balance" account (i.e., an account where funds are remitted by the credit union only when it has been advised that the CHECKS or DRAFTS have been presented) are considered to be deposits due to the DEPOSITORY INSTITUTION and must be reported in Item 1.a or 1.b, as appropriate.)

4. Outstanding travelers checks and money orders sold to customers unless the proceeds are remitted on the same day to another party under a consignment arrangement.

5. Funds received or held in escrow accounts that may be withdrawn on demand or within 14 days from the date of deposit (excluding escrow accounts classified as TIME or SAVINGS DEPOSITS). (See Section 1, Subsection H, for general treatment of escrow funds.)

6. PRIMARY OBLIGATIONS issued to NONEXEMPT ENTITIES except:

   a. those issued to INTERNATIONAL INSTITUTIONS; and

   b. certain obligations issued by the credit union's nondepository AFFILIATES, as described in Section 1, Subsection E.3. (These transactions are reported in Schedule A, Item 1.)

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Other Transaction Accounts (Items 4, 5, and 6)

Item 4--ATS Accounts

Report in Item 4 the balance of all ATS ACCOUNTS. ATS ACCOUNTS are SAVINGS DEPOSITS or SHARE ACCOUNTS of individuals that are authorized for automatic transfer to DEMAND DEPOSIT or other accounts pursuant to written agreement arranged in advance between the credit union and the depositor for purposes of covering CHECKS or SHARE DRAFTS drawn upon the credit union, or to maintain a specified balance in or to make periodic transfers to such accounts.

Some credit unions may have entered into agreements with their customers providing that in the event the customer should overdraw a SHARE DRAFT ACCOUNT, the credit union will transfer from the customer's SAVINGS or SHARE DRAFT ACCOUNT an amount sufficient to cover the overdraft. The availability of such an overdraft protection plan would not in and of itself require that such a SAVINGS or SHARE ACCOUNT be regarded as a TRANSACTION ACCOUNT if no more than three such transfers are permitted or authorized in a month. Exclude such limited overdraft protection plans (less than 4 per month) from this item. However, a savings account or SHARE ACCOUNT from which more than 3 transfers could be made to a SHARE DRAFT ACCOUNT to cover overdrafts shall be regarded as a TRANSACTION ACCOUNT and reported in this item.

Item 5--Telephone and Preauthorized Transfer Accounts

Report in Item 5 the balance of SAVINGS DEPOSITS, SHARE ACCOUNTS, or TIME DEPOSITS under the terms of which, or from which, by practice of the credit union, the depositor is permitted or authorized to make more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of TELEPHONE or PRE-AUTHORIZED TRANSFER, agreement, order or instruction. An account that permits or authorizes more than three such withdrawls in a month is a TRANSACTION ACCOUNT, regardless of whether or not more than three such withdrawals actually are made in a month. A month is a calendar month or any period of approximately one month that is at least 4 weeks long, such as a statement cycle.

Also report in this item the balance of SAVINGS DEPOSITS, TIME DEPOSITS or accounts in which payments may be made to third parties by means of a a debit card, an automated teller machine (ATM), remote service unit (RSU), or other electronic device, regardless of the number of payments made.

The following transactions do not in and of themselves render an account to be a TRANSACTION ACCOUNT:

1. Withdrawals for the purpose of repaying loans and associated expenses, such as insurance and escrow requirements, at the credit union itself.

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2. Intra-family allocations of a direct payroll deposit. (This refers only to those cases where a deposit is made directly to one account and, within a very short period of time, routine disbursements of a portion of a payroll deposit are made to family-member accounts or other accounts of the depositor.)

3. Withdrawals paid directly to the depositor that could be effected by TELEPHONE or PREAUTHORIZED TRANSFER or order.

4. Transfers to other accounts of the depositor at the credit union itself through use of ATMs or RSUs.

Exclude from this item those accounts that permit no more than three TELEPHONE or PREAUTHORIZED TRANSFERS a month to another account of the depositor in the same institution or to a third party. Also exclude all DEMAND DEPOSITS, ATS ACCOUNTS, and SHARE DRAFT ACCOUNTS, even if TELEPHONE or PREAUTHORIZED TRANSFERS are permitted from such accounts. Please note that savings accounts or SHARE ACCOUNTS from which more than 3 transfers per month can be made to a SHARE DRAFT ACCOUNT to cover overdrafts shall be excluded from this item and reported in Item 4, "ATS Accounts."

Item 6--Share Draft Accounts

Report in Item 6 the balance of all SHARE DRAFT ACCOUNTS. SHARE DRAFT ACCOUNTS represent accounts that can be withdrawn or transferred to third parties by issuance of a negotiable or TRANSFERABLE instrument.

Item 7--Total Transaction Accounts

Report in this item the sum of Items 1.a, 1.b, 2, 3, 4, 5, and 6.

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Revision #6--April 1982

DEDUCTIONS FROM TRANSACTION ACCOUNTS (Items 8 and 9)

Item 8--Demand Balances Due From Depository Institutions

Report in this item all balances subject to immediate withdrawal, due from U.S. offices of banks and other DEPOSITORY INSTITUTIONS. This item also includes all balances in SHARE DRAFT ACCOUNTS due from other credit unions (including corporate central credit unions) if such accounts are withdrawable immediately upon demand. Balances to be reported must be your book value rather than the book value of the other DEPOSITORY INSTITUTION.

Include in this item all balances of the credit union subject to immediate withdrawal that are in the form of DEPOSITS (exclude PRIMARY OBLIGATIONS) due from U.S. offices of the following institutions located in the U.S.:

1. U.S. commercial banks and trust companies conducting a commercial BANKING BUSINESS;
2. all DEPOSITORY INSTITUTIONS that are defined in 12 CFR §204.121 as BANKERS' BANKS;
3. BRANCHES AND AGENCIES OF FOREIGN (NON-U.S.) BANKS (including branches and agencies of FOREIGN OFFICIAL BANKING INSTITUTIONS);
4. EDGE ACT and AGREEMENT CORPORATIONS;
5. industrial banks;
6. mutual and stock savings banks;
7. building or savings and loan associations, homestead associations and cooperative banks; and
8. other credit unions (including corporate central credit unions).

NOTE: Do not include in this item any deposits due from the institutions listed above that are negative (i.e., overdrawn).

Also include in this item balances subject to immediate withdrawal, due from a correspondent that have not been passed through to the Federal Reserve by the correspondent. (However, as noted below, any balances that were passed through to the Federal Reserve by the correspondent are to be excluded from this item.) (deletion)

Exclude from this item:

1. DEMAND DEPOSIT balances due from Federal Reserve Banks representing:
   a. your credit union's reserve balances held directly with the Federal Reserve;
   b. your credit union's reserve balances that were passed through to the Federal Reserve by a correspondent;

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c. reserve balances of another institution for which your credit union is serving as a pass-through agent (correspondent) and that were passed through by your credit union to the Federal Reserve Bank; and

d. your credit union's clearing balances maintained at a Federal Reserve Bank.

2. DEMAND DEPOSIT balances that are due from the NCUA Central Liquidity Facility.

3. DEMAND DEPOSIT balances due from other DEPOSITORY INSTITUTIONS that are pledged by the respondent institution and are not available for immediate withdrawal.

4. TIME and SAVINGS DEPOSIT balances held at other DEPOSITORY INSTITUTIONS.

5. Amounts at other DEPOSITORY INSTITUTIONS that represent future payment balances or balances that will not be available for immediate withdrawal until a future date but that have been booked by the credit union in advance.

6. CASH ITEMS in process of collection (reported in Item 9).

7. Any deposit account due to a correspondent or other DEPOSITORY INSTITUTION that is overdrawn, or amounts that, if charged against a correspondent account by the respondent institution, would result in an overdraft in that account.

8. Any deposit account due from a correspondent or other institution that is negative (i.e., overdrawn). The amount of such negative balances should be regarded as zero when computing the deposit total.

NOTE: Negative balances are considered either as borrowings by the credit union or as deposits due to the DEPOSITORY INSTITUTION, depending on whether or not the credit union routinely maintains sufficient funds in its account with another DEPOSITORY INSTITUTION to cover CHECKS or DRAFTS issued. Specifically, when an account which the credit union routinely maintains with sufficient balances to cover CHECKS or DRAFTS drawn in the normal course of business becomes overdrawn, negative balances that result from such occasional overdrafts are regarded as borrowings by the credit union and should not be included in this report. However, CHECKS or DRAFTS drawn against an account that is not routinely maintained with sufficient balances, or that are drawn against a "zero balance" account (i.e., an account where funds are remitted by the credit union only when it has been advised that the CHECKS or DRAFTS have been presented) are considered to be deposits due to the DEPOSITORY INSTITUTION and must be reported in Item 1.a or 1.b, as appropriate.

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9. DEMAND DEPOSIT balances that are due from:

   a. any NON-U.S. office of any U.S. DEPOSITORY INSTITUTION;

   b. any NON-U.S. office of any FOREIGN (NON-U.S.) BANK;

   c. trust companies that do not conduct a commercial BANKING BUSINESS;

   d. N.Y. State investment companies (chartered under Article XII of the New York State Banking Code) that perform a BANKING BUSINESS and that are majority-owned by one or more NON-U.S. BANKS; and

   e. private banks.

Item 9—Cash Items in Process of Collection

Report in Item 9 the balance of all CASH ITEMS in process of collection.

Include as CASH ITEMS in process of collection:

1. CHECKS or DRAFTS in process of collection (unless the credit union is given immediate credit for CHECKS or DRAFTS deposited with its correspondent) that are drawn on another DEPOSITORY INSTITUTION and that are payable immediately upon presentation in the U.S. This includes CHECKS or DRAFTS in the process of collection with:

   a. Federal Reserve Banks,

   b. other DEPOSITORY INSTITUTIONS, or

   c. clearing houses.

   NOTE: CHECKS or DRAFTS which a credit union deposits in its demand deposit account at another DEPOSITORY INSTITUTION should be reported in Item 8 or in Item 9, depending on whether or not the funds are immediately available to the credit union. If, upon deposit, the funds are immediately available to the credit union, they should be reported in Item 8, "Demand balances due from depository institutions." However, if the DEPOSITORY INSTITUTION does not permit the credit union to withdraw the funds for a specified period of time, the credit union should report such deposits in Item 9 until such time as the funds are available to the credit union.

2. CHECKS or SHARE DRAFTS on hand that will be presented for payment or forwarded for collection on the following business day.

3. CHECKS or DRAFTS drawn on the Treasury of the United States that are in process of collection.

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4. Other items in process of collection that are payable immediately upon presentation in the U.S. and that are customarily cleared or collected by DEPOSITORY INSTITUTIONS as CASH ITEMS, such as:

   a. redeemed U.S. savings bonds;

   b. money orders and travelers checks;

   c. SHARE DRAFTS;

   d. bank DRAFTS and FEDERAL RESERVE DRAFTS;

   e. PAYABLE THROUGH DRAFTS that have been received by the credit union and that will be forwarded to another DEPOSITORY INSTITUTION;

   f. BROKERS' SECURITY DRAFTS and COMMODITY OR BILL OF LADING DRAFTS (including arrival drafts) that are payable immediately upon presentation in the U.S.;

   g. amounts associated with automated payment arrangements in connection with payroll deposits, Federal recurring payments, and other items that are credited to a depositor's account prior to the payment date to ensure that the funds are available on the payment date;

   h. RETURNED ITEMS drawn on other DEPOSITORY INSTITUTIONS; |

   i. UNPOSTED DEBITS; and |

   j. food coupons and certificates. |

Exclude from this item and from this report:

1. Items handled as NONCASH ITEMS, whether or not cleared through Federal Reserve Banks.

2. Items not payable in the U.S.

3. Items for which the credit union has already received credit.

4. COMMODITY OR BILL OF LADING DRAFTS (including arrival drafts) not yet payable (because the merchandise against which the draft was drawn has not yet arrived), whether or not deposit credit has been given. |

5. PAYABLE THROUGH DRAFTS received by the credit union, if acting in the capacity of a clearing agent for a nondepository institution, that have not been collected from that nondepository institution which is the drawer of the draft. |

6. Credit card or debit slips in process of collection, whether or not deposit credit has been given. |

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Treatment of CASH ITEMS forwarded to Federal Reserve Banks

CASH ITEMS forwarded to a Federal Reserve Bank for collection and for credit should continue to be reported as CASH ITEMS until such time as credit has actually been given by a Federal Reserve Bank in accordance with the appropriate time schedules established pursuant to Federal Reserve Bank "Operating Circulars."

CASH ITEMS in process of collection also should reflect the actual availability of funds received for DIRECT SENT CASH ITEMS. Adjustment should be made to:

1. Retain as CASH ITEMS in process of collection the amounts for items sent directly to Federal Reserve Banks in other districts that will arrive when those Federal Reserve offices are closed for a local or regional holiday.

2. Remove from CASH ITEMS in process of collection the amounts for items sent directly to Federal Reserve Banks in other districts that will arrive when the local Federal Reserve offices are closed. Credit for such items will be given on a back-valued basis by the local Federal Reserve office.

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OTHER SAVINGS AND TIME DEPOSITS

Other Savings Deposits (Items 10, 11, and 12)

"Other savings deposits" includes all SAVINGS DEPOSITS and SHARE ACCOUNTS other than those reported under TRANSACTION ACCOUNTS. For Items 10, 11, and 12, SAVINGS DEPOSITS or SHARE ACCOUNTS include DEPOSITS described in Section 1, Subsection E.1, and PRIMARY OBLIGATIONS issued to NONEXEMPT ENTITIES described in Section 1, Subsection E.2, that are not payable on a specified date or after a specified period of time from the date of deposit, but for which the credit union expressly reserves the right to require at least 14 days written notice before an intended withdrawal.

Status of SAVINGS DEPOSITS when notice is required. If the credit union should use its right to require written notice of an intended withdrawal in connection with a SAVINGS DEPOSIT or SHARE ACCOUNT, the deposit continues to be a SAVINGS DEPOSIT or SHARE ACCOUNT and should not be classified as a TIME DEPOSIT. Where written notice actually is required by the credit union and such notice is received from a depositor, the SAVINGS DEPOSIT or SHARE ACCOUNT becomes a DEMAND DEPOSIT if not redeemed after expiration of the notice period and should be reported in Item 1, 2, or 3, as appropriate.

Include the following as "Other savings deposits":

1. SAVINGS DEPOSITS or SHARE ACCOUNTS, regardless of whether or not they earn INTEREST or DIVIDENDS.

2. SAVINGS DEPOSITS or SHARE ACCOUNTS maintained as compensating balances or pledged as collateral for loans.

3. Escrow deposits where the credit union reserves the right to require at least 14 days written notice before payment can be made. (See Section 1, Subsection E, for the general treatment of escrow funds.)

4. Individual Retirement Account (IRA) or Keogh Plan Accounts that are held in the form of regular SHARE ACCOUNTS or SAVINGS DEPOSITS.

5. CLUB ACCOUNTS, or other special purpose accounts, that are in the form of regular SHARE ACCOUNTS or SAVINGS DEPOSITS.

6. SAVINGS DEPOSITS or SHARE ACCOUNTS subject to no more than 3 transfers per month for purposes of covering overdrafts (i.e., overdraft protection plan accounts).

7. SAVINGS DEPOSITS or SHARE ACCOUNTS that permit the depositor to make no more than three TELEPHONE or PREAUTHORIZED TRANSFERS per month for purposes of transferring funds to another account or for making a payment to a third party. (NOTE: SAVINGS DEPOSITS or SHARE ACCOUNTS that permit the depositor to make more than three TELEPHONE or PREAUTHORIZED TRANSFERS per month are regarded as TRANSACTION ACCOUNTS and are reported in Item 5.)

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8. Any funds received by the credit union's nondepository AFFILIATE and later channeled to the credit union by its AFFILIATE in the form of a SAVINGS DEPOSIT.

9. INTEREST or DIVIDENDS paid by crediting SAVINGS DEPOSITS or SHARE ACCOUNTS.

Exclude from "Other savings deposits":

1. SHARE DRAFT ACCOUNTS (reported in Item 6).

2. ATS ACCOUNTS and those overdraft protection plan accounts that permit more than 3 transfers per month (reported in Item 4).

3. SAVINGS DEPOSITS or SHARE ACCOUNTS subject to more than 3 TELEPHONE and PREAUTHORIZED TRANSFERS per month (reported in Item 5).

4. Special passbook or statement accounts, such as "ninety-day notice accounts," "golden passbook accounts," or deposits labeled as "saving certificates," that have a specified ORIGINAL MATURITY of 14 days or more (reported in Items 13 and 14).

5. INTEREST or DIVIDENDS accrued on SAVINGS DEPOSITS or SHARE ACCOUNTS but not yet paid or credited to a deposit account.

6. HYPOTHECATED DEPOSITS.

7. Certain obligations issued by the credit union's nondepository AFFILIATES described in Section 1, Subsection E.3. (These transactions are to be reported in Schedule A.)

Item 10--Other Savings Deposits--Personal

Report in Item 10 the balance of all SAVINGS DEPOSITS or SHARE ACCOUNTS other than those reported under TRANSACTION ACCOUNTS that are not TRANSFERABLE and that represent funds in which the entire beneficial interest is held by a depositor that is a NATURAL PERSON.

Also include as PERSONAL SAVINGS DEPOSITS:

1. Escrow accounts, such as funds held for tax or insurance payments, if the depositor is a NATURAL PERSON and other conditions of a SAVINGS DEPOSIT are met, notwithstanding that the funds are held by the credit union as an escrow agent.

2. Individual Retirement Accounts (IRA) and Keogh Plan Accounts in the form of regular SHARE ACCOUNTS or SAVINGS DEPOSITS.

Item 11--Other Savings Deposits--Nonpersonal

Report in Item 11 the balance of all SAVINGS DEPOSITS or SHARE ACCOUNTS other than those reported under TRANSACTION ACCOUNTS that represent funds deposited to the credit of, or in which any beneficial interest is held by, a depositor that is not a NATURAL PERSON.

Also include in this item TRANSFERABLE SAVINGS DEPOSITS, regardless of whether or not the entire beneficial interest is held by NATURAL PERSONS.

Item 12--Total Other Savings Deposits

Report in this item the sum of Items 10 and 11.

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Time Deposits (Items 13, 14, 15, and 16)

Include in Items 13, 14, 15, and 16 the balance of all TIME DEPOSITS, in the form of both DEPOSITS and PRIMARY OBLIGATIONS, that are outstanding at the close of business each day. TIME DEPOSITS include DEPOSITS described in Section 1, Subsection E.1, and PRIMARY OBLIGATIONS issued to NONEXEMPT ENTITIES described in Section 1, Subsection E.2, that are payable on a specified date, after a specified period of time from the date of deposit, or after a specified notice period, which in all cases may not be less than 14 days from the date of deposit.

Reporting of Deposits Issued on a Discount Basis or on Which Interest is Prepaid

TIME DEPOSITS, including SHARE CERTIFICATES and CERTIFICATES OF INDEBTEDNESS, issued on a discount basis should be reported initially on the basis of the amount of funds actually received by the credit union. For example, if the credit union received $96,000 in exchange for a certificate of deposit issued at face value of $100,000, only the $96,000 received at the time of issuance should be reported initially as a TIME DEPOSIT. However, as the credit union's obligation to the depositor increases over the life of the deposit, representing INTEREST or DIVIDENDS earned on the deposit, the incremental amounts as credited to the certificate also should be reported as TIME DEPOSITS.

TIME DEPOSITS, including SHARE CERTIFICATES and CERTIFICATES OF INDEBTEDNESS, for which INTEREST or DIVIDENDS have been prepaid should be reported on the basis of the face value of the deposit issued by the credit union without deduction for the amount of prepaid INTEREST or DIVIDENDS. For example, if the credit union received $10,000 in exchange for a certificate of deposit issued at a face value of $10,000 and prepaid $500 in INTEREST or DIVIDENDS, the credit union should report as a TIME DEPOSIT the $10,000 received at the time of issuance. For reporting purposes, the $500 prepaid INTEREST or DIVIDEND should not be deducted from the face amount of the certificate.

Include the following as TIME DEPOSITS, regardless of whether or not they earn INTEREST or DIVIDENDS:

1. TIME CERTIFICATES OF DEPOSIT (including ROLL-OVER CERTIFICATES OF DEPOSIT) or SHARE CERTIFICATE ACCOUNTS, whether evidenced by negotiable or nonnegotiable instruments.

2. TIME DEPOSITS or SHARE CERTIFICATE ACCOUNTS, OPEN-ACCOUNT, evidenced by written contracts, including CLUB ACCOUNTS or other special purpose accounts.

3. Savings certificates, notice accounts, and passbook accounts (but not SAVINGS DEPOSITS or SHARE ACCOUNTS).

4. MONEY MARKET TIME DEPOSITS (certificates).

5. ALL SAVERS CERTIFICATES (ASCs).

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6. Funds received or held in escrow accounts that may be withdrawn after not less than 14 days from the date of deposit or after not less than 14 days written notice of an intended withdrawal. (See Section 1, Subsection H, for the general treatment of escrow funds.)

7. Individual Retirement Account (IRA) or Keogh Plan Accounts that are held in the form of TIME DEPOSITS or SHARE CERTIFICATE ACCOUNTS.

8. TIME DEPOSITS held by an employer as part of an unfunded deferred compensation plan established pursuant to subtitle D of the Revenue Act of 1978 (Pub. L No. 95-600, 92 Stat. 2763).

9. TIME DEPOSITS or SHARE CERTIFICATE ACCOUNTS maintained as compensating balances or pledged as collateral for loans.

10. All INTEREST or DIVIDENDS paid by crediting TIME DEPOSIT or SHARE CERTIFICATE ACCOUNTS.

11. Any funds received by the credit union's AFFILIATE and later channeled to the credit union by the AFFILIATE in the form of a TIME DEPOSIT.

Exclude from TIME DEPOSITS the following categories of liabilities that have an ORIGINAL MATURITY of 14 days or more:

1. HYPOTHECATED DEPOSITS (does not include DEPOSITS serving as collateral for loans).

2. Liabilities of the credit union arising from REPURCHASE AGREEMENTS involving obligations of, or obligations fully-guaranteed as to principal and interest by, the U.S. Government or a Federal agency.

3. Any PRIMARY OBLIGATION (including CERTIFICATES OF INDEBTEDNESS and other borrowed funds) issued or undertaken to obtain funds, regardless of the use of the proceeds, when transacted with U.S. offices of EXEMPT ENTITIES.

4. Funds obtained from state and local housing authorities under LOAN-TO-LENDER PROGRAMS involving the issuance of tax-exempt bonds and the subsequent lending of the proceeds to the credit union for housing finance purposes.

5. Borrowings from the Central Liquidity Facility or the National Credit Union Share Insurance Fund, or shares held by the National Credit Union Administration (NCUA) or the NCUA Central Liquidity Facility under a statutorily authorized assistance program.

6. Borrowings from a Federal Reserve Bank.

7. DEPOSITS for which the credit union merely reserves the right to require at least 14 days written notice of an intended withdrawal.

8. ATS ACCOUNTS and SHARE DRAFT ACCOUNTS (reported in Items 4 and 6, respectively).

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9. SAVINGS DEPOSITS or SHARE ACCOUNTS authorized for TELEPHONE or PRE-AUTHORIZED TRANSFER (reported in Item 5, 10, or 11, as appropriate).

10. Other SAVINGS DEPOSITS (reported in Items 10 and 11).

11. Matured TIME CERTIFICATES OF DEPOSIT, even if INTEREST or DIVIDENDS are paid after maturity, unless the deposit provides for automatic renewal at maturity.

12. INTEREST or DIVIDENDS accrued on TIME DEPOSITS, but not yet paid or credited to a DEPOSIT account.

13. Certain obligations issued by the credit union's nondepository AFFILIATES as described in Section 1, Subsection E.3. (These transactions are to be reported in Schedule A.)

Item 13--Time Deposits--Personal

Report in Item 13 the balance of all PERSONAL TIME DEPOSITS, regardless of ORIGINAL MATURITY.

Include as PERSONAL TIME DEPOSITS funds in which the entire beneficial interest is held by a NATURAL PERSON such as:

1. A TIME DEPOSIT (including a SHARE CERTIFICATE or CERTIFICATE OF INDEBTEDNESS) issued before October 1, 1980, to and held by a NATURAL PERSON, regardless of whether or not it is TRANSFERABLE.

2. A TIME DEPOSIT (including a SHARE CERTIFICATE or CERTIFICATE OF INDEBTEDNESS) that is issued to and held by a NATURAL PERSON and that contains on its face (or in the underlying agreement) a statement that it is not TRANSFERABLE (or that is TRANSFERABLE only on the books of, or with the permission of, the credit union).

3. CLUB ACCOUNTS and other special purpose accounts that are in the form of TIME DEPOSITS or SHARE CERTIFICATE ACCOUNTS.

4. Individual Retirement Account (IRA) and Keogh Plan Accounts in the form of TIME DEPOSITS or SHARE CERTIFICATE ACCOUNTS that are not TRANSFERABLE.

5. Nontransferable TIME DEPOSITS held by an employer as part of an unfunded deferred compensation plan established pursuant to subtitle D of the Revenue Act of 1978 (Pub. L No. 95-600, 92 Stat. 2763).

6. Escrow accounts in the form of TIME DEPOSITS or SHARE CERTIFICATE ACCOUNTS if the depositor is a NATURAL PERSON, notwithstanding that the funds are held by the credit union as escrow agent.

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Revision #6--April 1982

Item 14--Time Deposits--Nonpersonal

Report in Item 14 the balance of all NONPERSONAL TIME DEPOSITS.

Include as NONPERSONAL TIME DEPOSITS:

1. Funds deposited to the credit of, or in which any beneficial interest is held by, a depositor that is not a NATURAL PERSON.

2. A TIME DEPOSIT (including a SHARE CERTIFICATE or CERTIFICATE OF INDEBTEDNESS) that is issued on or after October 1, 1980, and that does not contain on its face a statement that it is not TRANSFERABLE, regardless of to whom it is issued.

3. A TIME DEPOSIT (including a SHARE CERTIFICATE or a CERTIFICATE OF INDEBTEDNESS) that is TRANSFERABLE, except those issued before October 1, 1980, to and held by a NATURAL PERSON (to be reported in Item 13).

Item 14.a.--Original Maturities of less than 3-1/2 years

Report in this item the balance of all NONPERSONAL TIME DEPOSITS with ORIGINAL MATURITIES of 14 days or more but less than 3-1/2 years.

Item 14.b.--Original Maturities of 3-1/2 years or more

Report in this item the balance of all NONPERSONAL TIME DEPOSITS with ORIGINAL MATURITIES of 3-1/2 years or more.

Item 15--Total Time Deposits

Report in this item the sum of Items 13, 14.a, and 14.b.

Item 16--Amount of TIME DEPOSITS in Denominations of $100,000 or More (included in Items 13 and 14)

Report in this item the balance of all PERSONAL and NONPERSONAL TIME DEPOSITS of $100,000 or more that are reported in Items 13 and 14. Include:

1. Negotiable and nonnegotiable, TRANSFERABLE and nontransferable CERTIFICATES OF DEPOSIT or SHARE CERTIFICATES issued in denominations of $100,000 or more, and TIME DEPOSITS and SHARE CERTIFICATES, OPEN-ACCOUNT and others, having balances of $100,000 or more.

Revision #1--December 1980

2. TIME DEPOSITS or SHARE CERTIFICATES originally issued in denominations of less than $100,000 but that, because of INTEREST or DIVIDENDS paid or credited, or because of additional deposits, now have a balance of $100,000 or more.

3. The balance of all PRIMARY OBLIGATIONS (including CERTIFICATES OF INDEBTEDNESS) of $100,000 or more that are reported in Items 13 and 14.

In determining if a TIME DEPOSIT is $100,000 or more, do not combine deposits that are represented by separate certificates or accounts, even if held by the same customer.

Exclude from this item DEMAND DEPOSITS, SHARE DRAFT ACCOUNTS, SAVINGS DEPOSITS or SHARE ACCOUNTS, ATS ACCOUNTS, and TELEPHONE TRANSFER or PREAUTHORIZED TRANSFER accounts with balances of $100,000 or more.

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Revision #1--December 1980

Item-17--Vault Cash (U.S. Currency and Coin)

Include as vault cash:

1. United States currency and coin owned and held by the credit union that may, at any time, be used to satisfy depositors' claims.

2. United States currency and coin in transit to a Federal Reserve Bank for which the credit union has not yet received credit, and in transit from a Federal Reserve Bank when the credit union has already been charged.

3. United States currency and coin in transit to a correspondent DEPOSITORY INSTITUTION if the correspondent institution's account at the credit union has not yet been charged, and in transit from a correspondent institution if the credit union's account at the correspondent institution has already been charged.

4. United States currency and coin placed in a vault (rented by the credit union) on the premises of another institution provided that:

   a. the credit union has full rights of ownership of the coin and currency;

   b. the credit union has full rights to obtain the coin and currency immediately in order to satisfy demands of customers (and accordingly must be reasonably nearby); and

   c. the institution from which the vault is rented does not include such currency and coin as its own vault cash.

Exclude from vault cash:

1. Foreign (NON-U.S.) currency and coin.

2. Silver and gold coin, and other currency and coin whose numismatic or bullion value is in excess of face value.

3. United States currency and coin that the credit union does not have full and unrestricted right to use, such as coin collections held for safekeeping for customers, currency and coin pledged as collateral by the credit union or by its customers, or currency and coin sold under a REPURCHASE AGREEMENT or purchased under a resale agreement.

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Revision #2--April 1981

SCHEDULE A--OTHER RESERVABLE OBLIGATIONS BY REMAINING MATURITY

Please note that Schedule A is applicable only to those few DEPOSITORY INSTITUTIONS that obtain funds (1) through the use of ineligible acceptances or (2) through the issuance of obligations by AFFILIATES. No credit union is likely to have ineligible acceptances. However, it is possible that a few credit unions will have AFFILIATES and, therefore, may have received funds through the issuance of obligations by AFFILIATES. If your credit union does obtain funds through the use of ineligible acceptances or the issuance of obligations by AFFILIATES, you must complete Schedule A. Otherwise, please check the box which precedes Schedule A on the reporting form indicating that you have no ineligible acceptances or obligations by AFFILIATES.

This schedule includes a breakdown, by maturity, of amounts outstanding of funds obtained (1) through the use of ineligible acceptances ("finance bills") or (2) through the issuance of obligations by AFFILIATES.

Ineligible Acceptances and Obligations by Affiliates (Items 1 and 2)

Report the following transactions in this schedule:

1. Amounts outstanding of funds obtained through use of ineligible acceptances ("including Finance Bills"): Report the dollar amounts outstanding of funds obtained by the reporting institution through its sale of any ineligible acceptances (acceptances of the type that are not eligible for discount by Federal Reserve Banks--see Section 13 of the Federal Reserve Act [12 U.S.C. §372]) when the obligation is issued or undertaken and discounted by the reporting institution as a means of obtaining funds and is issued to NONEXEMPT ENTITIES. Some ineligible acceptances are referred to as finance bills. The amounts to be reported are the funds received, and not necessarily the face amounts of the ineligible acceptances issued or undertaken. Therefore, the amounts outstanding reported in this item may differ from the face amounts of outstanding ineligible acceptances.

2. Amounts outstanding of funds obtained through issuance of obligations by affiliates: Report the dollar amounts outstanding of the funds obtained by the reporting institution when its nondepository AFFILIATES use the proceeds of the obligations that they issue to supply or maintain the availability of funds to the reporting institution. Such obligations may be in the form of promissory notes, ACKNOWLEDGEMENTS OF ADVANCE, due bills, or similar obligations (written or oral), with maturities of less than four years. However, such obligations should be reported only to the extent that they would have constituted DEPOSITS as described in Section 1, Subsection E.1, or PRIMARY OBLIGATIONS as described in Section 1, Subsection E.2, had they been issued directly by the reporting institution.

Exclude from Schedule A funds obtained by the credit union through obligations issued by AFFILIATES and deposited at the credit union in the form of DEMAND, SAVINGS, or TIME DEPOSITS. Such funds should be reported on this report as DEMAND, SAVINGS or TIME DEPOSITS, as appropriate.

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If the AFFILIATE'S obligation is determined to be a DEPOSIT or PRIMARY OBLIGATION to be reported in Schedule A, then the appropriate maturity category is determined by the shorter of (1) the maturity of the AFFILIATE'S obligation or (2) the maturity of the obligation issued by the reporting institution to the AFFILIATE or, in the case of assets purchased from the reporting institution, the remaining maturity of the assets purchased.

The following chart summarizes the conditions under which the proceeds from the issuance of an obligation by an AFFILIATE would be a DEPOSIT or a PRIMARY OBLIGATION, and indicates the appropriate section of this report in which the funds should be reported:

AFFILIATE'S obligation	Funds received by the reporting institution are in the form of a DEPOSIT or a PRIMARY OBLIGATION	Funds received by the reporting institution are not in the form of a DEPOSIT or PRIMARY OBLIGATION
1. AFFILIATE'S Obligation--would have been a DEPOSIT or a PRIMARY OBLIGATION if issued by the reporting institution	To be reported as a DEMAND, SAVINGS, or TIME DEPOSIT, as appropriate. (See Example 1 below)	To be reported on Schedule A. (See Example 2 below)
2. AFFILIATE'S Obligation--would not have been a DEPOSIT or a PRIMARY OBLIGATION if issued by the reporting institution	To be reported as a DEMAND, SAVINGS, or TIME DEPOSIT, as appropriate. (See Example 3 below)	To be excluded from this report. (See Example 4 below)

Example 1:

The AFFILIATE issues commercial paper with a maturity of 6 months to a nonfinancial corporation and immediately supplies the proceeds to the reporting institution by buying from the reporting institution a TIME CERTIFICATE OF DEPOSIT (CD) with an ORIGINAL MATURITY of one year. While both the AFFILIATE'S and the reporting institution's obligation are reservable, reserves need not be maintained against both obligations. Thus, reserves should be held against the amount of funds supplied to the reporting institution, i.e., the dollar amount of the CD. The appropriate reserve ratio is determined by the shorter of the maturity of the AFFILIATE'S commercial paper or the reporting institution's CD. In this example, reserves would be held for a TIME DEPOSIT with a 6-month maturity. The funds received by the reporting institution would be reported in Item 14.a, "Nonpersonal Time Deposits with an original maturity of less than 3-1/2 years."

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Example 2:

The AFFILIATE issues an unsecured due bill to a NONEXEMPT ENTITY with a maturity of 3 months and supplies the proceeds to the reporting institution when the due bill has a remaining maturity of 2 months. The AFFILIATE supplies the proceeds of the due bill by purchasing assets from the reporting institution maturing in 1 month. The AFFILIATE'S obligation is reservable and the sale of the assets by the reporting institution to the AFFILIATE is not. Thus, the reporting institution must hold reserves because the AFFILIATE'S obligation is subject to reserve requirements. The maturity category is determined by the remaining maturity of the assets sold by the reporting institution to the AFFILIATE (1 month), which is shorter than the REMAINING MATURITY of the due bill (2 months). In this example, the reserve requirement would be for the AFFILIATE's due bill (a PRIMARY OBLIGATION) and the appropriate maturity would be one month, which is the remaining maturity of the assets purchased. The funds received by the reporting institution should be reported in Item 2.b of Schedule A.

Example 3:

The AFFILIATE sells commercial paper with a maturity of 3 months to a commercial bank and supplies the proceeds to the reporting institution by depositing such funds with the reporting institution in a DEMAND DEPOSIT. The AFFILIATE'S sale of commercial paper to a commercial bank is not subject to reserve requirements, but the DEMAND DEPOSIT is. Thus, the reporting institution would hold reserve requirements against the DEMAND DEPOSIT as a TRANSACTION ACCOUNT. The funds received by the reporting institution should be reported in Item 3, "Other Demand Deposits."

Example 4:

The AFFILIATE sells U.S. Government securities under an agreement to repurchase and uses the proceeds to purchase assets from the reporting institution. Neither the sale of U.S. Government securities under an agreement to repurchase nor the purchase of assets is subject to reserve requirements. Thus, the reporting institution would <u>not</u> hold reserves against this transaction. The funds received by the reporting institution should be excluded entirely from this report.

The maturities to be reported in Items 1 and 2 are the remaining maturities of the obligations at the time the proceeds are supplied to the reporting institution.

<u>Item 1--Maturing in less than 14 days</u>

Report in Item 1 amounts outstanding of funds obtained through the use of ineligible acceptances and from issuance of obligations by AFFILIATES maturing in less than 14 days.

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Item 2--Maturing in 14 days or more but less than 3-1/2 years

Report in Item 2 amounts outstanding of funds obtained through the use of ineligible acceptances and from issuance of obligations by AFFILIATES maturing in 14 days or more but less than 3-1/2 years. In Item 2.a, report those that are personal, and in Item 2.b, report those that are nonpersonal.

Item 2.a.--Personal

Report in Item 2.a. all personal obligations that mature in 14 days or more but less than 3-1/2 years including:

1. Funds in which the entire beneficial interest is held by a depositor that is a NATURAL PERSON.

2. An obligation that is issued before October 1, 1980, to and held by a NATURAL PERSON, regardless of its tranferability.

3. An obligation that is issued to or held by a NATURAL PERSON and that contains a statement on its face that it is not TRANFERABLE.

Item 2.b.--Nonpersonal

Report in Item 2.b. all nonpersonal obligations that mature in 14 days or more but less than 3-1/2 years including:

1. Funds deposited to the credit of, or in which any beneficial interest is held by a depositor that is not a NATURAL PERSON.

2. An obligation that is TRANSFERABLE, except an obligation issued before October 1, 1980, to and held by a NATURAL PERSON.

3. An obligation that is issued on or after October 1, 1980, to and held by a NATURAL PERSON and that does not contain on its face a statement that it is not TRANSFERABLE.

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GLOSSARY OF TERMS

This section provides definitions, arranged in alphabetical order, for terms that appear in all capital letters in Sections 1 and 2 of this manual. These definitions are used for purposes of reserve requirements only. They may differ from definitions that appear in other rules, regulations, statutes, or reports.

ACKNOWLEDGEMENT OF ADVANCE

A notification by a DEPOSITORY INSTITUTION of its liability for funds that have been received. Acknowledgements of advance may take the form of a telegraphic advice, written receipt, issuance of a credit memo or other documentation, or simply an oral communication confirming the receipt of funds under a borrowing-lending arrangement. Acknowledgements of advance are PRIMARY OBLIGATIONS of the issuing DEPOSITORY INSTITUTION.

AFFILIATE

An affiliate is any corporation, association, or other similar organization of which:

1. the reporting institution, directly or indirectly owns or controls either a majority of the voting shares or more than 50 percent of the number of shares voted for the election of the directors, trustees, or other persons exercising similar functions at the preceding election or controls in any manner the election of a majority of the directors, trustees, or other persons exercising similar functions; or

2. control is held, directly or indirectly, through stock ownership or in any other manner, by shareholders of the reporting institution who own or control either a majority of the shares of the reporting institution or more than 50 percent of the number of shares voted for the election of directors of the reporting institution at the preceding election, or by trustees for the benefit of the shareholders of the reporting institution; or

3. the majority of its directors, trustees, or other persons exercising similar functions also are directors of the reporting institution.

AGREEMENT CORPORATION

A state-chartered corporation that has entered into an "agreement" with the Federal Reserve Board under the provisions of Section 25 of the Federal Reserve Act to limit its banking activities to those permitted to an EDGE ACT CORPORATION.

ALL SAVERS CERTIFICATES (ASCs)

A nonnegotiable TIME DEPOSIT that must meet all of the following criteria:

1. have an annual investment yield equal to 70 percent of the average investment yield for 52-week U.S. Treasury bills;

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2. be offered in denominations of $500, but may also be offered in other denominations;

3. have a maturity of one year; and

4. be issued only from October 1, 1981, through December 31, 1982.

ATS ACCOUNT

A SAVINGS DEPOSIT or SHARE ACCOUNT in which the entire beneficial interest is held by one or more individuals and that is authorized for automatic transfer to a DEMAND DEPOSIT or other account pursuant to a written agreement arranged in advance between the reporting institution and the depositor.

BANKERS' BANKS

A bankers' bank is a financial institution which satifies all of the following criteria:

1. The institution is organized solely to do business with other financial institutions. This requirement may be met even though the institution does a limited amount of business with customers other than financial institutions. Those to whom it may lend or from whom it may receive deposits are specified in 12 C.F.R. §204.121.

2. The institution is owned primarily (75 percent or more) by the financial institution with which it does business.

3. The institution does not do business with the general public except for customers specified in 12 C.F.R. §204.121. Loans to customers other than financial institutions may not exceed 10 percent of the institution's total assets, and the deposits that the institution receives from customers other than financial institutions may not exceed 10 percent of its total liabilities.

BANKING BUSINESS

The business of accepting DEPOSITS, making loans, and providing related services. The banking business does not include the acceptance of trust funds.

BILL OF LADING DRAFT

--See COMMODITY OR BILL OF LADING DRAFT.

BROKERS' SECURITY DRAFT

A DRAFT with securities or title to securities attached that is drawn to obtain payment for the securities. This DRAFT is sent to a DEPOSITORY INSTITUTION for collection with instructions to release the securities only on payment of the draft.

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CASH ITEM

Any instrument, whether negotiable or not, for the payment of money which is payable on demand. Cash items include CHECKS or DRAFTS in the process of collection drawn on a DEPOSITORY INSTITUTION, U.S. Government CHECKS, and other items that are customarily cleared or collected by DEPOSITORY INSTITUTIONS as cash items.

CERTIFICATE OF INDEBTEDNESS

An unsecured promissory note that represents borrowings by a credit union from its members or nonmembers.

CERTIFIED and CASHIERS' CHECK

An unpaid CHECK or DRAFT drawn on the reporting institution by an authorized person for any purpose, including repayment of "Federal funds" transactions or the payment of DIVIDENDS.

CHECK

An instrument drawn on a DEPOSITORY INSTITUTION and signed by the maker or drawer promising to pay a certain sum of money on demand to the order of a specified person or bearer.

CLUB ACCOUNTS (special purpose accounts)

Christmas, vacation, or other similar special purpose accounts in the form of SAVINGS DEPOSITS, SHARE ACCOUNTS, TIME DEPOSITS, or SHARE CERTIFICATE ACCOUNTS for which there are written contracts providing that no withdrawal can be made.

COMMODITY OR BILL OF LADING DRAFT

A DRAFT that is issued in connection with the shipment of goods. If the commodity or bill of lading draft becomes payable only when the shipment of goods against which it is payable arrives, it is an arrival draft. Arrival drafts are usually forwarded by the shipper to the collecting DEPOSITORY INSTITUTION with instructions to release the shipping documents (e.g., bill of lading) conveying title to the goods only upon payment of the draft. Payment, however, cannot be demanded until the goods have arrived at the drawee's destination. Arrival drafts provide a means of insuring payment of shipped goods at the time that the goods are released.

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DEMAND DEPOSIT

A DEPOSIT described in Section 1, Subsection E.1; or a PRIMARY OBLIGATION described in Section 1, Subsection E.2, that is payable immediately on demand or issued in an ORIGINAL MATURITY of less than 14 days, or that is payable with less than 14 days notice, or for which the reporting institution does not reserve the right to require at least 14 days written notice of an intended withdrawal.

DEPOSITORY INSTITUTION

Any of the following institutions that is empowered to accept DEPOSITS, make loans, or provide related services; and that is insured or is eligible to apply to become insured:

1. U.S. commercial banks:

   A. national banks,

   B. state-chartered commercial banks,

   C. trust companies that are authorized to perform a commercial BANKING BUSINESS, and

   D. private banks or unincorporated banking institutions organized as partnerships or proprietorships and authorized to perform commercial BANKING BUSINESS;

2. U.S. BRANCHES AND AGENCIES of FOREIGN (NON-U.S.) BANKS;

3. EDGE ACT and AGREEMENT CORPORATIONS;

4. savings banks (mutual and stock);

5. building or savings and loan associations;

6. cooperative banks;

7. homestead associations;

8. credit unions (including corporate central credit unions);

9. industrial banks (including Morris Plan banks, thrift and loan companies, and industrial savings banks) when chartered as a bank under state law.

The term DEPOSITORY INSTITUTION excludes the following:

1. A trust company whose principal function is to accept and execute trust arrangements or act in a purely fiduciary capacity.

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2. A cash depository, cooperative exchange, or similar depository organization whose principal function is to serve as a safe deposit institution.

3. A finance company, whether or not empowered to receive deposits or sell certificates of deposit.

4. U.S. Government agencies and instrumentalities, such as the Central Liquidity Facility, National Credit Union Share Insurance Fund, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortage Association, Federal Financing Bank, and Student Loan Marketing Association.

5. Export-Import Bank of the U.S.

6. Government Development Bank of Puerto Rico.

7. Minbanc Capital Corporation.

8. Federal Reserve Banks.

DEPOSITS

--See Section 1, Subsection 7.1, or Section 204.2 (a)(1)(i through iii) of Regulation D.

DIRECT SENT CASH ITEM

A CASH ITEM sent for collection directly by the reporting institution in one Federal Reserve District for collection from a Federal Reserve Bank located in another district.

DRAFT

A negotiable instrument signed by the maker or drawer ordering the payment of a certain sum of money on demand to the order of a specified person or bearer.

EDGE ACT CORPORATION

Any corporation organized under Section 25(a) of the Federal Reserve Act or under state law whose principal purpose is to engage in international banking or foreign financial operations under limitations established by the Federal Reserve Board.

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EXEMPT ENTITIES

U.S. offices of the following:

1. U.S. commercial banks and trust companies and their operations subsidiaries;

2. a U.S. BRANCH OR AGENCY OF A FOREIGN (NON-U.S.) BANK;

3. EDGE ACT and AGREEMENT CORPORATIONS;

4. industrial banks;

5. mutual and stock savings banks;

6. building or savings and loan associations and homestead associations;

7. cooperative banks;

8. credit unions (including corporate central credit unions);

9. New York State investment companies (chartered under Article XII of the New York State Banking Code) that perform a BANKING BUSINESS and that are majority-owned by one or more NON-U.S. banks;

10. Investment companies or trusts in which the entire beneficial interest is held by a depository institution.

11. U.S. Government agencies and instrumentalities, including the Central Liquidity Facility, National Credit Union Share Insurance Fund, Federal Reserve Banks, Federal Home Loan Bank Board, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives, the Federal Home Loan Mortgage Corporation, Federal Deposit Insurance Corporation, Federal National Mortgage Association, Federal Financing Bank, and Student Loan Marketing Association;

12. Export-Import Bank of the U.S.;

13. Government Development Bank of Puerto Rico;

14. Minbanc Capital Corporation;

15. securities dealers, but only when the borrowing (a) has a maturity of one day, (b) is in immediately-available funds, and (c) is in connection with the clearance of securities; and

16. the U.S. Treasury (TREASURY TAX AND LOAN ACCOUNT NOTE BALANCES).

FEDERAL PUBLIC FUNDS

Funds of the U.S. Government and funds the deposit of which is subject to the control and regulation of the United States or any of its officers, agents, or employees.

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FEDERAL RESERVE DRAFT

A DRAFT issued by a DEPOSITORY INSTITUTION that is drawn on its account at a Federal Reserve Bank and that is payable by the Federal Reserve Bank.

FOREIGN (NON-U.S.) BANK

A bank organized under foreign (NON-U.S.) law. Foreign banks include commercial banks, merchant banks, discount houses, and similar DEPOSITORY INSTITUTIONS, including nationalized banks that perform essentially a BANKING BUSINESS and do not perform, to any significant extent, official functions of FOREIGN (NON-U.S.) GOVERNMENTS.

FOREIGN (NON-U.S.) GOVERNMENTS

Central, national, state, provincial, and local governments in foreign (NON-U.S.) countries (including their ministries, departments, and agencies) that perform functions similar to those performed in the United States by government entities.

Foreign governments also include FOREIGN OFFICIAL BANKING INSTITUTIONS.

FOREIGN (NON-U.S.) NATIONAL GOVERNMENT

A central or national government that performs functions similar to those performed by the Federal Government of the United States. State, provincial, and local governments are not included as foreign national governments.

FOREIGN OFFICIAL BANKING INSTITUTIONS

Central banks, nationalized banks and other banking institutions in foreign (NON-U.S.) countries that are owned by central governments and that have as a significant part of their fuction activities similar to those of a treasury, central bank, exchange control office, stabilization fund, etc.

HYPOTHECATED DEPOSITS

Funds received by a reporting institution that are recorded as DEPOSITS generally in accordance with state law and that reflect periodic payments by a borrower on an instalment loan. These payments are accumulated until the sum of the payments equals the entire amount of principal and interest on the loan, at which time the loan is considered paid in full. The amounts received by the reporting institution are not immediately

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used to reduce the unpaid balance of the note, but are assigned to the reporting institution and cannot be reached by the borrower or the borrower's creditors. Hypothecated deposits are not to be reported as reservable deposits.

DEPOSITS which simply serve as collateral for loans are not considered hypothecated deposits for purposes of this report.

IMMEDIATELY-AVAILABLE FUNDS

Funds that the reporting institution can invest or dispose of on the same business day that the transaction giving rise to receipt of the funds is executed. Such funds are sometimes referred to as "collected," "actually collected," "finally collected," or "good" funds.

INTEREST or DIVIDENDS

Any payment to, or for the account of, a depositor as compensation for the use of deposit funds. Payments to a depositor that are not related to the use of deposit funds by the reporting institution are not interest. For example, if existing depositors are offered monetary or other compensation for attracting new depositors, that compensation does not constitute interest or dividends. Similarly, one-time premiums (whether in the form of merchandise, credit, or cash) that are used to attract new depositors represent advertising or promotional expenses rather than a payment of interest or dividend, provided that their wholesale cost does not exceed $5.00 per deposit ($10.00 after December 30, 1980) under $5,000 and $10 per deposit ($20.00 after December 30, 1980) of $5,000 or more. Finally, interest or dividends do not include the cost of administrative or processing services absorbed by the reporting institution in relation to deposit accounts. For example, the reporting institution's payment of state personal property taxes on bank deposits or the market value of an advisory individual account analysis of the depositor does not constitute interest or dividends.

INTERNATIONAL INSTITUTION

(1) Any international entity of which the United States is a member, such as the International Bank for Reconstruction and Development (World Bank), International Monetary Fund, Inter-American Development Bank, and the United Nations, and (2) other foreign, international, or supranational entities of which the United States is not a member, such as the African Development Bank, Central Treaty Organization, European Atomic Energy Community, European Economic Community, European Development Fund, Caribbean Development Bank, Bank for International Settlements, etc. (See Regulation Q [12 CFR § 217.126].)

ITEMS PAYABLE THROUGH

--See PAYABLE THROUGH DRAFT.

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LOAN-TO-LENDER PROGRAM

A loan-to-lender program involves the issuance of tax-exempt bonds by a state or local housing authority and the subsequent lending of the proceeds to a reporting institution with the condition that these funds be used to make specified types of residential real estate loans. The funds advanced to institutions under the program are evidenced by a loan agreement and a promissory note issued by the institution to the housing authority.

MONEY MARKET TIME DEPOSITS

A nonnegotiable TIME DEPOSIT that must be issued in denominations of $10,000 or more with an ORIGINAL MATURITY of exactly 26 weeks. The maximum rate of INTEREST which DEPOSITORY INSTITUTIONS may pay on these deposits is tied to the discount rate (auction average) on the most recently issued six-month Treasury bills. Compounding of INTEREST is not permitted on these deposits.

NATURAL PERSON

For purposes of this report, a natural person is an individual or sole proprietorship. The term excludes a corporation owned by one or more individuals, a partnership or other association.

NONCASH ITEM

Any item that is not a CASH ITEM.

NONEXEMPT ENTITY

A nonexempt entity is any one of the following:

1. individuals partnerships, and corporations, wherever located;
2. security dealers wherever located, when the borrowing (a) does not have a maturity of one day, (b) is not in immediately-available funds, and (c) is not in connection with the clearance of securities;
3. U.S. states and local governments and their political subdivisions;
4. a BANK'S parent holding company if the holding company is not a bank;
5. nonbanking subsidiaries of a BANK'S parent holding company;
6. nonbanking subsidiaries of a BANK.

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Please note that for purposes of reporting on the FR 2900, the definition of a nonexempt entity does not include any institution listed as an EXEMPT ENTITY nor any institution reported on the Report of Certain Eurocurrencies (FR 2950).

NONPERSONAL SAVINGS DEPOSITS

A SAVINGS DEPOSIT that is not a TRANSACTION ACCOUNT and that represents funds deposited to the credit of, or in which any beneficial interest is held by, a depositor that is not a NATURAL PERSON.

NONPERSONAL TIME DEPOSITS

NONPERSONAL TIME DEPOSITS means:

(1) a TIME DEPOSIT representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor which is not a NATURAL PERSON;

(2) a TIME DEPOSIT that is TRANSFERABLE, except a TIME DEPOSIT issued before October 1, 1980, to and held by a NATURAL PERSON; and

(3) a TIME DEPOSIT issued on or after October 1, 1980, to and held by a NATURAL PERSON that does not contain on its face a statement that it is not TRANSFERABLE.

NON-U.S.

Any geographic location, including the Commonwealth of Puerto Rico and U.S. territories and possessions, outside the 50 states of the United States and the District of Columbia.

NON-U.S. BANK

--See FOREIGN (NON-U.S.) BANK.

ORIGINAL MATURITY

The length of time from the date of deposit to the earliest date that the funds may be withdrawn under the terms of the deposit agreement. Where a deposit is withdrawable on a specified date, the maturity is determined by the length of time between the issue date and the specified maturity date. Where a deposit has no specified maturity but can be withdrawn after written notice is provided to the reporting institution,

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the maturity is determined by the length of the required notice period. ROLL-OVER CERTIFICATES OF DEPOSIT, multiple maturity deposits, alternative maturity deposits, or deposits providing other maturity combinations that permit a depositor the option of withdrawing the deposit at different dates or periods of time should be reported on the basis of the earliest allowable withdrawal date.

PAYABLE THROUGH DRAFT

A DRAFT drawn upon a nonbank payor which states on its face that it is payable through a particular bank.

PERSONAL SAVINGS DEPOSIT

A SAVINGS DEPOSIT that represents funds deposited to the credit of, or in which the entire beneficial interest is held by, a depositor that is a NATURAL PERSON.

PERSONAL TIME DEPOSIT

A TIME DEPOSIT that represents funds deposited to the credit of, or in which the entire beneficial interest is held by, a depositor that is a NATURAL PERSON, including (a) a TIME DEPOSIT that was issued before October 1, 1980, to and held by a NATURAL PERSON, regardless of its transferability, or (b) a TIME DEPOSIT that is issued to or held by a NATURAL PERSON and that contains on its face a statement that it is not TRANSFERABLE.

PREAUTHORIZED TRANSFERS

--See TELEPHONE and PREAUTHORIZED TRANSFERS.

PRIMARY OBLIGATIONS

--See Section 1, Subsections E.2, E.3, and E.4 of these instructions and Section 204.2,(a)(1)(iv,v, and vii) of Regulation D.

REPURCHASE AGREEMENT

An arrangement involving the sale of a security or other asset under a prearranged agreement to repurchase the same or similar security or asset at a later date.

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RETURNED ITEM

A CHECK or DRAFT that is returned by a drawee institution to the presenting institution because of certain irregularities that, if waived, might result in a loss to the drawee institution. The item is returned so that the presenting institution may correct the defect or take such other action as may be necessary, such as charging the depositor's account.

ROLL-OVER CERTIFICATE OF DEPOSIT

A certificate of deposit transaction (sometimes referred to as a "roly-poly") where a depositor agrees to maintain funds on deposit with a DEPOSITORY INSTITUTION at a specified rate for a certain period, usually several years. Instead of receiving one certificate of deposit maturing at the end of the period, however, the depositor agrees to purchase a series of short-term certificates of deposit. The depositor initially buys a short-term certificate, and when it matures, is required under the terms of the deposit agreement to purchase another short-term certificate. This process continues until the long-term contract period expires.

For purposes of determining required reserves, roll-over certificates of deposit must be reported in terms of the maturity of the issued certificate rather than the contractual time period of the long-term master agreement.

SAVINGS DEPOSIT

A DEPOSIT described in Section 1, Subsection E.1; or a PRIMARY OBLIGATION described in Section 1, Subsection E.2, that is not payable on a specified date or after a specified period of time from the date of deposit, but for which the reporting institution expressly reserves the right to require at least 14 days written notice before an intended withdrawal. Also see Section 204.2 of Regulation D.

SHARE ACCOUNT

Funds in the form of shares purchased by a member or other approved depositor which are received or held by the credit union in its usual course of business and for which the credit union has given, or is obligated to give, credit to the account of the depositor. This account is not payable on a specified date or after a specified period of time. However, the credit union expressly reserves the right to require at least 14 days written notice before an intended withdrawal of all or any portion of the shares in an account.

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SHARE CERTIFICATE ACCOUNT

A TRANSFERABLE or nontransferable instrument or account which provides on its face or in the underlying agreement that a specified amount of shares is payable:

1. on a certain date, specified in the instrument or underlying agreement, not less than 14 days after the purchase date of shares; or

2. at the expiration of a certain specified time not less than 14 days after the date the instrument is issued or the account is opened; or

3. upon notice in writing which actually is required to be given by the account holder not less than 14 days before the date of repayment.

A share certificate account earns a dividend, and a penalty is assessed for early withdrawal.

SHARE DRAFT

A negotiable or nonnegotiable DRAFT signed by the account holder directing the credit union on which the draft is drawn to pay a certain sum of money on demand to a specified person or bearer. Such drafts are used to withdraw shares from a SHARE DRAFT ACCOUNT.

SHARE DRAFT ACCOUNT

An account from which shares may be withdrawn or transferred to third parties by means of a negotiable or TRANSFERABLE instrument or other order such as a SHARE DRAFT. Share draft accounts may be withdrawable upon demand, or the credit union may reserve the right to require up to 60 days notice prior to an intended withdrawal.

TELEPHONE AND PREAUTHORIZED TRANSFER

Any arrangement by the DEPOSITORY INSTITUTION to transfer funds to another account of the depositor or to pay a third party from the account of a depositor (1) upon written or oral instruction (including an order received through an automated clearing house (ACH)), or (2) at a predetermined time or on a fixed schedule or (3) by telephone transfer. Under such agreements, the depositor may make withdrawals by preauthorized transfer or payment, by telephone transfer or payment, or by payment to third parties by means of a debit card, an automated teller machine (ATM), remote service unit (RSU), or other electronic device.

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TIME DEPOSIT, CERTIFICATE OF DEPOSIT

A DEPOSIT described in Part I, Section 1, Subsection E.1; or a PRIMARY OBLIGATION described in Part I, Section 1, Subsection E.2, that is payable on a specified date, after a specified period of time from the date of deposit, or after a specified notice period, which in all cases may be not less than 14 days from the date of deposit.

A TIME DEPOSIT may be represented by a TRANSFERABLE or nontransferable, or a negotiable or nonnegotiable, certificate, instrument, passbook or statement. A nonnegotiable TIME DEPOSIT is distinguished from a nontransferable TIME DEPOSIT in that the transferee of a nonnegotiable TIME DEPOSIT would not be a holder in due course and would not have the ability to cut off certain defenses of an obligor even though an exchange for value can be made. A nontransferable TIME DEPOSIT allows no exchange for value to be made.

TIME DEPOSIT, OPEN ACCOUNT

A deposit other than a TIME CERTIFICATE OF DEPOSIT with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn prior to the date of maturity, which shall be not less than 14 days after the date of deposit, or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 14 days in advance of withdrawal.

TRANSACTION ACCOUNT

A DEPOSIT or account on which the depositor or account holder is permitted to make withdrawals by negotiable or TRANSFERABLE instrument (SHARE DRAFTS), payment orders of withdrawal, telephone transfers, or other similar device for the purpose of making payments or transfers to third persons or other accounts of the same depositor. "Transaction account" includes:

(1) DEMAND DEPOSITS;

(2) DEPOSITS or accounts subject to withdrawal by CHECK, DRAFT, negotiable order, or SHARE DRAFT;

(3) SAVINGS DEPOSITS or SHARE ACCOUNTS in which the entire beneficial interest is held by one or more individuals and that are authorized for automatic transfer to a DEMAND DEPOSIT or other account pursuant to a written agreement arranged in advance between the reporting institution and the depositor (ATS ACCOUNTS);

(4) DEPOSITS or accounts in which payment may be made to third parties by means of a debit card, an automated teller machine (ATM), remote service unit (RSU), or other electronic device; and

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(5) DEPOSITS or accounts from which the depositor is permitted or authorized to make more than 3 withdrawals per month for purposes of transferring funds to another account or making a payment to a third party by means of TELEPHONE or PREAUTHORIZED TRANSFER or payment.

NOTE: An account is not regarded as a transaction account merely because it permits transfers in connection with loans made by the institution itself.

TRANSFERABLE

The transferee of a transferable TIME DEPOSIT would be a holder in due course and would have the ability to cut off certain defenses of an obligor. A TIME DEPOSIT is not considered a transferable TIME DEPOSIT if it can be pledged as collateral for a loan from any lender, or if the title or beneficial interest in the deposit or account can be passed on in circumstances arising from death, bankruptcy, divorce, marriage, incompetency, attachment, or otherwise by operation of law. In addition, the reissuance of a TIME DEPOSIT by an institution in the name of another or the addition or subtraction of names on the TIME DEPOSIT will not be regarded as a transfer.

UNPOSTED CREDITS

Items that have been received for DEPOSIT and that are in process of collection but that have not been posted to individual or general ledger deposit accounts. These credits should be reported as DEPOSITS.

UNPOSTED DEBITS

CASH ITEMS drawn on the reporting institution that have been "paid" or credited by the DEPOSITORY INSTITUTION and that are chargeable but that have not been charged against DEPOSITS as of the close of business. These items should be reported as "cash items in process of collection" until they have been charged to either individual or general ledger deposit accounts.

U.S.

The 50 states of the United States and the District of Columbia.

U.S. BRANCHES AND AGENCIES OF FOREIGN (NON-U.S.) BANKS

Branches and agencies of foreign (NON-U.S.) banks that operate as a U.S. office of their foreign (NON-U.S.) parent bank. A branch or agency may be licensed by the U.S. Government, or by a state of the U.S. As defined by the International Banking Act of 1978, a "branch" means any office or

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any place of business of a foreign bank located in any state of the United States at which DEPOSITS are received; an "agency" means any office or any place of business of a foreign bank located in any state of the United States at which credit balances are maintained incidental to or arising out of the exercise of banking powers, CHECKS are paid, or money is lent but at which DEPOSITS may not be accepted from citizens or residents of the United States.

U.S. TREASURY GENERAL ACCOUNT

A Treasury account maintained at the reporting institution to which government officers deposit funds obtained in connection with special collections, such as customs fees or other tax collections.

U.S. TREASURY TAX AND LOAN ACCOUNT

A Treasury DEMAND DEPOSIT account maintained at the reporting DEPOSITORY INSTITUTION through which the Treasury receives DEPOSITS (receipts), principally of Federal tax payments and proceeds from the sale of savings bonds. The account does not include TREASURY TAX AND LOAN ACCOUNT NOTE BALANCES.

U.S. TREASURY TAX AND LOAN ACCOUNT NOTE BALANCE

That balance representing the total amount outstanding of open-ended interest-bearing notes issued by the reporting DEPOSITORY INSTITUTION to the U.S. Treasury under the TREASURY TAX AND LOAN ACCOUNT note option program.

A depository authorized to accept U.S. TREASURY TAX AND LOAN ACCOUNT DEPOSITS may administer such accounts under either of two options: (1) the remittance option and (2) the note option. Under the remittance option, depositories must send the previous day's tax and loan account balance as of the close of business to the Federal Reserve Banks. Under the note option, depositories will automatically convert the previous day's close-of-business balance in their tax and loan account to an interest-bearing demand note, which must be fully collateralized.

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You must file a *Report of Certain Eurocurrency Transactions* if your institution had during the reporting period any foreign borrowings

Report of Transaction Accounts, Other Deposits and Vault Cash

For the week ended _____, 19__

FR 2900
OMB No. 7100-0087
Approval expires September 1982

If your institution had no outstanding balances of transaction accounts (Item 7), other nonpersonal savings deposits (Item 11), nonpersonal time deposits with original maturities of less than 3½ years (Item 14.a), or ineligible acceptances or obligations by affiliates maturing in less than 3½ years (Schedule A, Items 1 and 2.b), you need not complete this report. Rather, please check this box, sign the report, and return it to the designated Federal Reserve Bank. ☐

This report is required by law (12 U.S.C. §248(a) and §461).

The Federal Reserve System regards the information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

PLEASE READ INSTRUCTIONS PRIOR TO COMPLETION OF THIS REPORT

Items		Report all balances as of the close of business each day to the nearest thousand dollars																
		Column 1 Thursday		Column 2 Friday		Column 3 Saturday		Column 4 Sunday		Column 5 Monday		Column 6 Tuesday		Column 7 Wednesday		Column 8 Total		
		Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	
TRANSACTION ACCOUNTS																		
Demand Deposits																		
1 Due to depository institutions																		
a. Banks																		1a
b. Other depository institutions																		1b
2 U.S. Government																		2
3 Other demand																		3
Other Transaction Accounts																		
4 ATS accounts																		4
5 Telephone and preauthorized transfers																		5
6 NOW Accounts, Share Drafts																		6
7 Total (must equal sum of Items 1 through 6 above)																		7
DEDUCTIONS FROM TRANSACTION ACCOUNTS																		
8 Demand balances due from depository institutions in the U.S.																		8
9 Cash items in process of collection																		9
OTHER SAVINGS AND TIME DEPOSITS																		
Other Savings Deposits																		
10 Personal																		10
11 Nonpersonal																		11
12 Total (must equal sum of Items 10 and 11)																		12

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Please continue on page 2

Items	Report all balances as of the close of business each day to the nearest thousand dollars																	
	Column 1 Thursday		Column 2 Friday		Column 3 Saturday		Column 4 Sunday		Column 5 Monday		Column 6 Tuesday		Column 7 Wednesday		Column 8 Total			
	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.	Mils.	Thous.
OTHER SAVINGS AND TIME DEPOSITS (continued)																		
Time Deposits																		
13. Personal (regardless of maturity)																		13
14. Nonpersonal																		
a. Original maturity of less than 3½ years																		14a
b. Original maturity of 3½ years or more																		14b
15. Total (must equal sum of items 13 and 14)																		15
16. All time deposits in denomination of $100,000 or more (included in items 13 and 14)																		16
17. VAULT CASH																		17

If your institution had no ineligible acceptances or obligations by affiliates, please check this box and do not complete Schedule A. ☐

SCHEDULE A. OTHER RESERVABLE OBLIGATIONS BY REMAINING MATURITY																		
Ineligible Acceptances and Obligations by Affiliates																		
1. Maturing in less than 14 days																		1
2. Maturing in 14 days or more but less than 3½ years																		
a. Personal																		2a
b. Nonpersonal																		2b

Name and Address of Reporting Institution

I certify that the information shown on this report is correct

Authorized Signature

Title

Person to be Contacted Concerning this Report (please print)

Area Code and Telephone Number

Please return by no later than

To:

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Chairman FAUNTROY. Mr. Hutchinson, you have indicated a desire, if it were possible, to be exempted from all reporting and reserve requirements set forth by regulation, on basis of the fact that your institutions do not accept deposits but the interest held by the institutions' members is really an equity interest in the credit union. How does this differ from, say, mutual savings institutions, if we were to exempt you, shouldn't we exempt them as well? Let me ask you to think about that. What about other kinds of transaction mechanism such as those offered by the money funds, the cash management accounts and the sweep accounts? I understand the conceptionalization behind your suggestion and might not disagree, if I were certain that the impact on monetary control were nonexistent. I would like your response to that in the context of the comment on reporting?

Mr. HUTCHINSON. Mr. Chairman, I do not presume to speak for mutual savings banks, whether they should or should not be required to report. I do speak for Federal credit unions and I think I made that point very clear.

As far as my understanding of the acceptance of money, even in mutual savings institutions, they are deposits. It is my understanding that they are deposits, in the true sense of the word. The actual distribution of the funds within the association itself are of a cooperative nature. Whether you are talking about a credit union, the difference here being, of course, is that the actual payment made to the credit union is to purchase an interest in the association. That is pure and simple. That is right where it sits. The dividend paid on those funds comes from the actual use of the funds by the credit union. Beyond that, I don't have any other differentiation to make about them.

Chairman FAUNTROY. All right.

Mr. Barr, you, too, raised the issue of reporting requirements. Are the reserve requirements you desire to get relief for identical to those of the savings and loan associations?

Mr. BARR. Yes, it is the same report filled out by all financial institutions. I understand they have a different instruction book than credit unions but certainly it is the same report prepared and submitted weekly or quarterly, depending upon the size of the institution, except for those that are currently exempt under the present regulation. In our judgment, the relief from reporting would apply to all institutions if it were added to your bill.

The unique beauty of your bill, if I may say, Mr. Chairman, even though I do subscribe to Mr. Hutchinson's thesis on credit unions, in the real political world is that it provides uniform relief and cuts across all of the lines except for the money market mutual funds. It would, in essence, create a level playing field for all financial institutions.

Chairman FAUNTROY. Would you comment, Mr. Boatwright?

Mr. BOATWRIGHT. The way we look at it, a transaction account is a transaction account regardless of the form of ownership. As far as monetary policy and the flow of funds in this country are concerned, it has the same effect. So we do not make the distinction under terms of formal ownership but what does it actually do in our economy.

Chairman FAUNTROY. Thank you.

I want to enter into the record three items which have been submitted to us in lieu of the appearance of the persons before the committee. The first is a letter from the American Bankers Association, the second is a statement of Mr. Denis S. Karnosky, Deputy to the Under Secretary for Monetary Policy Analysis with the Department of Treasury, and the third is a communication from the Independent Bankers Association of America.

[The material referred to by Chairman Fauntroy follows:]

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036

EXECUTIVE DIRECTOR
GOVERNMENT RELATIONS

Gerald M. Lowrie
202/467-4097

June 15, 1982

The Honorable Walter E. Fauntroy, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The American Bankers Association appreciates this opportunity to present our views on H.R. 6222 which would exempt from reserve requirements the first $2 million in reservable deposits as all depository institutions. Our Association has more than 13,100 full service banks as members, over 90% of the nation's total. This includes more than 12,000 community banks with deposits of approximately $100 million or less.

The hearings leading to the passage of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221) generated debate over the necessity for mandatory reserve requirements, the form of such reserves, and the types of deposits on which reserves should be imposed. The result was a public policy decision that reserve requirements are necessary for monetary policy and should be imposed on transactions accounts and non-personal time deposits at all depository institutions, including non-member banks, savings and loans, mutual savings banks, credit unions, and member banks of the Federal Reserve.

ABA supported the concept of uniform universal reserve requirements. ABA's position, developed by our consensus process which includes input

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from a wide cross section of the banking industry, was predicated on the participation of all financial intermediaries of all sizes. It should be pointed out that it was the Community Bankers Division of our Association, those smaller institutions that would benefit most by exemptions from reserve requirements, that most strongly objected to a reserve requirement burden that exempted any class, type or size of depositoryinstitution.

During the debate culminating in the passage of P.L. 96-221, careful consideration was given to reducing the burden that universal reserve requirements would impose on small institutions. Our Association recognized that some distinctions favoring small institutions would be desirable. Therefore we supported, and continue to support, the concept of a lower reserve requirement on the first $25 million in transactions accounts. This lower reserve ratio, plus permission to include vault cash as reserves, significantly reduces the need for small institutions to post reserves with the Federal Reserve. ABA also supports the section of P.L. 96-221 which authorizes the Federal Reserve Board to impose different reporting requirements on different categories of institutions. We believe that these provisions in conjuncton with the scheduled eight year phase in provide small institutions with considerable relief from the burden of reserve requirements, while at the same time ensuring the participation of all depositories in the conduct of monetary policy.

Reserve requirements, without interest, are a tax levied on depository institutions to facilitate the conduct of monetary policy. One of the essential principles of taxation is that the tax should be fairly applied.

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Congress recognized and acted upon this principle in the Monetary Control Act of 1980 by requiring that all depository institutions exercising similar transaction account authority maintain similar reserves. At the same time, Congress recognized the need for flexibility during the transition period. Because of the administrative complexity of supervising reserves for the almost 15,000 institutions with less than $2 million in deposits, the Federal Reserve Board has exercised its administrative discretion by twice delaying the implementation of reserve requirements on these institutions. Our Association has not objected to the Board's action, because we understand that small depository institutions, as well as the Board, need time to adjust to new responsibilities as major as reserve requirements. Some 23% of the banks with less than $5 million in deposits — roughly equivalent to the exemption level proposed in H.R. 6222 — are members of the Federal Reserve and therefore fulfilling a reserve requirement. This certainly indicates that small institutions are able to cope with the imposition of required reserves.

H.R. 6222, however, would permanently exempt the first $2 million in deposits from required reserves. The effect of this would be to completely exempt over one-third of all depository institutions subject to required reserves under PL 96-221. Because the exemption level is indexed, this inequality will not be erased over time.

Our Association objects to this proposal. If reserve requirements matter for monetary policy — and P.L. 96-221 said that they do — then they matter whatever institution holds the reservable deposits. Indeed, it

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should be pointed out that Federal Reserve Board Chairman Volcker has testified that he believes the Board should be given authority to extend reserve requirements to money market funds accessible by check to improve monetary control. H.R. 6222, which effectively exempts small depository institutions from reserve requirements, ignores this testimony and the record established in the hearings culminating in the Monetary Control Act of 1980. Money held at these institutions has the same purchasing power as money held at large institutions. Excess amounts of it have the same monetary policy consequences.

In addition to the question of implementation of monetary policy is the question of competitive equity. H.R. 6222 would create an unbalanced situation in which depository institutions differing in size facing each other in a competitive situation would be working under different ground rules. While one institution would be required to hold a portion of its deposits in non-earning reserves, the other would be free to put all of its deposits into earning assets. We also note that many of the institutions which would be freed of reserve requirements are credit unions, which are already free of Federal, state and local taxation, deposit rate ceilings, state usury ceilings, and many of the regulatory constraints under which their commercial bank, savings and loan, and mutual savings bank competitors must operate. P.L. 96-221 which levied reserve requirements on credit unions was also the law authorizing share drafts (checking accounts) for credit unions. They wanted to be more like banks and in exchange

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accepted the obligation of reserve requirements. To now exempt the overwhelming majority of credit unions is not equitable treatment.

We believe similar instruments at all financial institutions should be treated in the same manner. If the Committee sees fit to eliminate the reserve burden for some institutions by exempting a certain level of deposits, we believe the entire structure of current reserve requirements should be reevaluated. Our position, as we have testified on many occasions, endorses uniform universal reserve requirements in all financial intermediaries offering similar accounts.

The inclusion of non-depository intermediaries in any universal reserve requirements scheme is an essential element in ABA's consensus position. Placing a tax in the form of monetary policy related reserve requirements only on depository institutions gives non-depositories a competitive advantage in the provision of transactions services. This tends to reduce the relative role of depository institutions in financial intermediation. Shifts of funds between transaction balances at covered depository institutions and itermediaries not subject to reserves complicates the conduct of monetary policy in the same ways as shifts between differing reserve levels among member banks and shifts between member and non-member banks did under the previous reserve system.

The obvious example of transaction balances at non-depository institutions is money market mutual funds. The assets of these funds reached $200 billion in June; virtually all of these funds can be accessed by checks. We believe that the money market mutual funds should not be

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permitted to offer check writing privileges to their shareholders until all depository institutions, following the phasing out of Regulation Q, can offer competitive instruments. However, if Congress does not act to prohibit the money market funds from offering transactions accounts, then the money market mutual funds should be subject to the same monetary policy related reserve treatment imposed on other financial intermediaries offering a like service.

The American Bankers Association believes there should be no special burderns associated with the imposition of reserve requirements for monetary policy purposes. Burdens associated with the implementation of monetary policy should be borne by society at large and not a particular segment of the financial industry. The apparent intent of H.R. 6222 is to eliminate this burden for one segment of depository institutions. If this subcommittee and the Congress find that the burden of required reserves is too great to be imposed on one segment of the financial industry, the burden should be removed from all institutions. We believe this can be achieved by paying a fair market rate of interest on required reserves held at the Federal Reserve.

In summary, ABA believes that P.L. 96-221 should be reopened but not for the narrow purpose of exempting the first $2 million in reservable liabilities as proposed in H.R. 6222 but rather to be revised to extend uniform universal reserves to all financial intermediaries, including money market funds, which offer accounts equivalent to reservable deposits at depository institutions. Moreover, the burden of reserves required for monetary policy purposes should be eliminated through the payment of a fair market rate of interest on reserve balances held at the Federal Reserve.

Sincerely,

Gerald M. Lowrie

Gerald M. Lowrie

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For Release At 10 A.M.
Wednesday, June 16, 1982

STATEMENT OF DENIS S. KARNOSKY
DEPUTY TO THE UNDER SECRETARY FOR
MONETARY POLICY ANALYSIS
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

Wednesday, June 16, 1982

I am pleased to present to the Subcommittee the Treasury Department's view on H.R. 6222.

It is our view that monetary control is enhanced by reserve requirements that are universally and uniformly applied to all depository institutions. This is the principle behind the extension of reserve requirements provided by the Monetary Control Act of 1980. In addition to the monetary control considerations, universal reserve requirements also maximize equity between competing institutions and types of institutions.

The operating and reporting costs associated with reserve requirements fall heavily on small institutions. With passage of the Monetary Control Act of 1980, these costs were considered to be particularly high for small, non-member institutions that had not been previously subject to Federal Reserve reserve requirements. Since the Monetary Control Act extended Federal Reserve reserve requirements to thousands of additional institutions, it also presented new operational difficulties for the Federal Reserve.

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For these reasons, and we believe appropriately, the Federal Reserve granted a temporary deferral of reserve requirements for non-member institutions with total deposits less than $2 million. The potential problems for monetary control associated with granting such a deferral were small and were far outweighed by the practical costs to the depository institutions, and to the Federal Reserve, and by the need to facilitate an orderly implementation of the Monetary Control Act.

The bill before you, as well as an alternative Senate bill, S.1720, seeks to permanently exempt small institutions from reserve requirements. Since the monetary control implications of doing so are small and the reporting and compliance costs of reserve requirements are disproportionately large for small institutions, Treasury supports, in principle, providing such a legal exemption.

Under the Monetary Control Act, all reservable liabilities except transactions accounts in excess of $26 million are currently subject to a 3% reserve requirement. Since small institutions would generally hold at least 3% of their reservable liabilities as vault cash for operating purposes anyway, they are effectively already exempted from holding reserve requirements. That is, under existing law (and ignoring the Federal Reserve's temporary deferral), small institutions are not required to hold reserves in excess of what they would voluntarily hold in order to conduct normal operations. Therefore, the exemption of small institutions from reserve requirements would not effectively alter their holdings of liquid assets. Instead, an exemption would, in effect, only exempt them from the necessity of reporting to the Federal Reserve

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and verifying compliance with Federal Reserve reserve requirements.

The Congress has before it two alternative approaches to relieving small institutions from the reporting and compliance requirement. H.R. 6222 exempts from reserve requirements the first $2 million of reservable liabilities at all depository institutions. This would mean that nearly 24,000 institutions would be exempt from holding reserve requirements altogether and every institution, regardless of its size, would have its reservable liabilities reduced by $2 million. The alternative approach, contained in S.1720, would exempt from reserve requirements any institution with less than $5 million in total deposits. Slightly less than 20,000 institutions fall into this category.

While we do not oppose either version, the second approach, as contained in S.1720 is, in our view, preferable. Under H.R. 6222, a large institution would be required to hold no reserves on its first $2 million of reservable liabilities; under existing arrangements, it would be required to hold reserve requirements of 3% on transactions accounts up to $26 million and 12% on transactions accounts above that amount. Thus large institutions would be subject to a three-tiered reserve requirement system.

Reserve requirements that impose different required reserve ratios on different classes of deposits reduce the precision of monetary control. Because of this concern, the reform of reserve requirements prescribed by the Monetary Control Act reduced the number of reserve categories; the Act moved the system closer to the ideal one which, from the standpoint of monetary control, consists of one uniform required reserve ratio. We do not favor

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any changes in the structure of reserve requirements that increase the number of categories of deposits to which differential required reserve ratios are applied.

By exempting only small institutions from reserve requirements, the approach contained in S.1720 does not create any new categories within the reserve requirement system. Furthermore, the "threshold" effect that is claimed to be a problem under the S.1720 approach does not really occur because small institutions would generally voluntarily hold as much as 3% of reservable liabilities in liquid form anyway. Thus, an institution slightly larger than the $5 million cutoff level, which would be required to hold reserve requirements, would not hold disproportionately more liquid assets than an institution below the cutoff level, even though the latter institution would not be required to do so by law.

Another drawback to the approach contained in H.R. 6222 is that it puts commercial banks at a disadvantage relative to thrift institutions of equal size. Since typically a much larger proportion of a commercial bank's deposits is transactions accounts, a small bank would be much more likely to have more than $2 million of reservable liabilities than a thrift institution with equal total deposits. Therefore, the reserve requirement structure described in H.R. 6222 would impose the reporting costs of reserve requirements on many commercial banks, while thrift institutions of equal size would likely to be exempt.

In summary, since the monetary control implications are small, Treasury supports the principle of relieving small institutions from the disproportionate burden that reserve requirement compliance imposes upon them. However, in achieving that goal we would prefer to do so in a way that minimizes the effects on monetary control and that treats all types of institutions equitably. For these reasons, we would favor the approach contained in S.1720, rather than that contained in H.R. 6222.

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June 16, 1982

Honorable Walter E. Fauntroy, Chairman
Subcommittee on Domestic Monetary Policy
House of Representatives
2350 Rayburn House Office Bldg.
Washington, DC 20515

Dear Chairman Fauntroy:

On behalf of the Independent Bankers Association of America (IBAA), I wish to thank you for your kind invitation to submit a written statement regarding H.R. 6222, "The Reserve Requirements Act of 1982," legislation which you introduced on April 29, 1982.

The IBAA is the national trade association representing community banks. Approximately 7300 IBAA member banks serve as the primary small business and agricultural lenders in small towns and suburban communities within forty-eight states, as well as in the District of Columbia. A recent survey of our membership revealed that the median asset size of IBAA member banks was $22 million.

Your letter inviting our comments on H.R. 6222 indicated that the purpose of this legislation is to codify the temporary regulations issued by the Federal Reserve Board, which deferred the reporting and maintenance of reserves by nonmember depository institutions having less than $2 million reservable liabilities. We are still analyzing the impact this would have on our membership of small community banks and do note that the reservable liability concept apparently will result in a broader exemption from reserve requirements than we had originally thought. We will be in touch with the Committee again after we have had the opportunity to analyze some of the data prepared by the Federal Reserve.

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The IBAA wishes to be recorded as firmly in favor of a permanent statutory exemption from reserve requirements for small nonmember depository institutions. While a majority (about fifty-eight percent) of commercial banks have assets of twenty-five million dollars or less, their share of commercial bank deposits stands at about seven percent. We believe that the burden placed by reserve requirements on these small nonmember institutions clearly outweighs their less than significant role in the conduct of monetary policy. The reserve requirement, when added to the higher capitalization standards that small banks must satisfy, constitutes an additional and unfair burden on community banks.

Therefore, we commend you for proposing the principle that would be established by this legislation. However, as noted, we are still analyzing the exemption level proposed in H.R. 6222 which at first glance appears far too low. We recognize that exemptions from reserve requirements would of course result in some diminution in the excess income returned to the Treasury by the Federal Reserve. We do not believe that this reduction should influence the ultimate determination of this issue--reserve requirements are properly based solely upon monetary control considerations; income to the Treasury is a question of taxation which should be resolved separately, on its own merits, through a direct mechanism rather than through the disguised tax system of reserve requirements.

It would be ludicrous to deny a proper level of reserve exemptions to nonmember depositories on the basis of this budgetary consideration when, contemporaneously, the more than $200 billion in money market mutual funds (MMMFs) continues to grow, and to compete unfairly with banking, totally outside the scope of reserve requirements, deposit insurance, or other appropriate regulation. The MMMFs have clearly achieved their spectacular growth, at the expense of the public purposes and protections deemed appropriate for the financial system by the Congress, by offering a high-yield, liquid transaction account to the public. Simply put, we cannot understand why small commercial banks should be required to maintain reserves when, at the same time, the MMMFs, which collectively hold more than $200 billion, are permitted to continue operating outside nearly all regulation and totally beyond monetary policy control, discipline of reserve requirements.

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Mr. Chairman, we are aware of your continuing efforts to give the Federal Reserve appropriate monetary control tools over MMMFs, and we applaud you for these efforts. While we believe that a higher exemption level for nonmember depositories would be appropriate even were the Congress to follow your lead in this area, it becomes absolutely essential in the current climate of Congressional indifference to the impact of MMMFs on monetary control, and upon the structure and soundness of the financial system.

We appreciate this opportunity to submit these observations, and would be glad to answer any questions posed by the Subcommittee, and to lend our efforts to enacting legislation consistent with the views we have expressed in this statement.

Sincerely,

Robert L. McCormick, Jr.
President

RLM/nls

Chairman FAUNTROY. Gentlemen, in the ABA's written testimony they indicate that this legislation is unnecessary. I believe that view represents that of only the larger financial institutions and not this Nation's many smaller ones. Certainly, my proposed legislation would have only a minimal effect on larger financial institutions but a great effect on small ones. Do you agree? I wonder if they have asked their smaller banks what they thought about my bill.

Mr. BARR. Absolutely. Under your legislation, Citicorp, Bank of America, Chase Manhattan, and the other large money center banks—even though the direct effect on their bottom line would be miniscule—is at least some relief to the larger banks. The benefit to the small institution is substantial.

Mr. BRANTLEY. Could I add one point to that?

Chairman FAUNTROY. Yes.

Mr. BRANTLEY. It seems to me the commercial banks, having been in the checking account business for all of these many years, have developed highly substantial bases of transaction accounts. I suspect that their lack of concern may stem from the fact that the $2 million exemption will affect very few of their institutions. That would be my supposition as to why they might not be concerned about this bill, as the thrift institutions are since they have not been in the checking account business for a very long period and will benefit more from your legislation.

Chairman FAUNTROY. In their testimony the Fed has indicated that they would have difficulty in justifying further exemption from compliance with the Federal Reserve requirements of the Monetary Control Act. If there were no further exemptions, can you tell us the impact that this would have upon your institution? What would be the costs of compliance? Would not vault cash offset some proportion of that cost?

Mr. HUTCHINSON. Mr. Chairman, when we were discussing originally with the Members of Congress and staff and people at the Federal Reserve about the possibility of all financial institutions being required to post reserves, we did not disagree with that pro-

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vided that in the case of Federal credit unions, the reserves were passed through the central liquidity facility of the NCUA. Second, that we were paid earnings on those funds, they were not going to be passed through sterilely.

To do any different is an injustice to the members of the credit union. Why should the workingman who is creating these funds through the credit unions be asked to forgo earnings that are being received by the Federal Reserve and passed on to the Treasury?

It is an indirect tax on these people. It is a denying to the credit union member a percentage of earnings on the use of their funds as contrary to the basis of the law itself. Because the law says the use of funds should be paid for in a commensurate fashion. Any bleeding away of that, any deletion of the use of those funds by any source is an injustice to the member. Thus we would have to stand on that. If they are going to require reserves and all institutions are going to be required to make them, then we should be earning something for the use of those funds. That is what we are saying, Mr. Chairman.

Chairman FAUNTROY. Mr. Barr?

Mr. BARR. Yes. To try to answer your question and elaborate a little further. If the current exemption, the one that is currently permitted by the Federal Reserve, were ended, roughly 18,000 credit unions would have to hold reserves and report to the Federal Reserve because they have so-called reservable accounts. Your bill would exempt all but 450 of those 18,000 credit unions and that 450 represents less than 2 percent of all of the credit unions in the United States. The number of dollars that would be reserved by the Fed, even if the present exemption were taken away, would be miniscule because practically every credit union in the country could satisfy that requirement with vault cash. The additional burden that I spoke to earlier is that of reporting by these small credit unions. The impact of reporting would be devastating.

Chairman FAUNTROY. Mr. Boatwright.

Mr. BOATWRIGHT. We do not have any statistics because most of the savings banks probably would not be greatly affected. We appear here in support of smaller institutions, including those savings banks who would be affected.

You asked about the costs. We did some guesstimating as to what it costs without going into any great survey and we came up with figures roughly in line with what the Vice Chairman of the Federal Reserve reported this morning, $4,000 to $5,000 per institution, which seems to be a figure in the ball park and those are exempted would presumably—if not directly, save that amount of money, at least have that amount of time available to do other more productive things.

Chairman FAUNTROY. In addition I would like to know also whether or not it is important to maintain the indexing feature presently in my bill. As you know, the Fed expressed some concern over the present and projected costs of this exemption. Would you comment on two matters, first: What would be the impact of our decision to eliminate the indexing provision; and second, what would be the impact of our decision to limit this exemption to only institutions of certain sizes instead of exempting the first $2 million of all institutions?

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If we were to proceed in that fashion—and as you know that has been a suggestion in the past—would you comment on the impact of this type of reserve requirement on the operation of banking institutions?

Mr. BRANTLEY. We support your indexing feature. We think that would be useful in keeping the level of exemption in line with the growth of transaction accounts in our institution.

Chairman FAUNTROY. But what if we eliminated that provision? What would be the effect?

Mr. BRANTLEY. I don't think it would be a significant effect on us. At the same time I think it recognizes that there will be changes in the sizes of institutions and this indexing feature will keep that in line.

The second question you asked is one that we feel very strongly about. We think that your method of providing the exemption is much preferable to specifying, based on size of the institution. The difference between a $50 million commercial bank and its composition of deposits and a $50 million savings and loan and its composition of deposits is significant. And, therefore, it would be very difficult to find a common deposit level that would meet the needs of all kinds of financial institutions. So we think the $2 million level is the preferred way to go.

Mr. BARR. I concur with that, Mr. Chairman.

Mr. BOATWRIGHT. So do I.

Chairman FAUNTROY. There is an increasing interest by institutions that reserves should pay some level of interest. Do you have any estimate of the cost of such interest payments to the Government if the rates were set at the market rate?

Mr. BARR. I can't personally address to the total dollar figure. One would presume, however, that it would be a substantial amount of money that would be a direct loss to the Treasury, if the Fed were required to pay interest. I believe former Chairman Burns testified to this fact. I also believe Chairman Volcker testified that they would be willing to pay interest on reserves; however, the costs would be substantial.

However, I have a suggestion that you might consider to make up that lost revenue. If the Fed decides to pay interest, there is roughly $200 billion not subject to reserves in the money market funds right now, that might compensate for that loss to the Treasury. We would even be magnanimous enough to suggest that the same exemption that you are suggesting for all of the financial institutions would apply to the money market funds.

Chairman FAUNTROY. You would?

Mr. BARR. Yes, we would have no objection at all to that.

Mr. BOATWRIGHT. I would only add that it appears that the Treasury is going to lose this source of funds anyway if the growth of money market funds continues outside of the traditional financial intermediary system. The Treasury is losing that source of income and, while it may not be apparent, all you have to do is do a little financial calculation, and you will see that some $10 billion of reserves that are being lost already to the Fed and earnings on that to the Treasury.

Mr. HUTCHINSON. They are almost the words I would utter, Mr. Boatwright. The actual outflow of funds from the financial institu-

tion, of course, goes to some other source and would decrease the reserve requirements. I think what he said is very true. The actual loss to the Fed would be zero, because the Fed has the free use of the funds now. They get the funds and they earn money on them and pass them through to the Treasury. The loss to the Treasury, however, would be sizable. That bothers me in one sense as a taxpayer of the country. But in the sense of the manager of the credit union trying to get a reasonable return to its member for the use of its dollar, I would rather see it go to the reasonable use of returning it to the man for the use of his dollar.

Chairman FAUNTROY. I would like to thank you all for the contribution to our hearing today. I am particularly pleased to note the interest in coverage of money market funds. Your statements today may inspire me to reintroduce the measure which I introduced last year, but around which I got no strong show of support from your organizations. Maybe, if you will follow up this time, we might be able to at least engage my colleague, Mr. Barnard, in some meaningful discussion and be encouraged to talk to the Gray Panthers about the equities involved.

Let me thank you again, and if you have any concluding remarks, you may feel free to give them now.

Mr. BRANTLEY. No, sir, I do not have any.

Mr. BARR. Just our gratitude in having the opportunity to testify, thank you, sir.

Mr. BOATWRIGHT. Thank you very much.

Chairman FAUNTROY. Thank you.

The hearing is adjourned.

[Whereupon, at 12:10 p.m., the subcommittee was adjourned.]

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